

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the quarterly period ended December 31, 1996

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 1-11806

Ethan Allen Interiors Inc.; Ethan Allen Inc.; Ethan Allen Finance
Corporation; Ethan Allen Manufacturing Corporation; Andover Wood
Products Inc.

(Exact name of registrant as specified in its charter)

Delaware 06-1275288
(State or other jurisdiction of incorporation (I.R.S. Employer ID No.)
or organization)

Ethan Allen Drive, Danbury, Connecticut 06811
(Address of principal executive offices)

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

N/A
(Former name, former address and former fiscal
year, if changed since last report)

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. Yes No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and
reports required to be filed by Sections 12, 13 or 15(d) of the Securities
Exchange Act of 1934 subsequent to the distribution of securities under a plan
confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of
common stock, as of the latest practicable date.

14,402,367 at December 31, 1996

ETHAN ALLEN INTERIORS INC.
AND SUBSIDIARY

INDEX

	PAGE
Part I. Financial Information:	
Item 1. Consolidated Financial Statements as of December 31 and June 30, 1996 and for the three and six months ended December 31, 1996 and 1995 (unaudited):	
Consolidated Balance Sheets	2
Consolidated Statements of Income	4
Consolidated Statements of Cash Flows	5
Consolidated Statement of Shareholders' Equity	6
Notes to Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Part II. Other Information:	17
Item 1. Legal Proceedings	
Item 2. Changes in Securities	
Item 6. Exhibits and reports on Form 8-K	

-1-

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY
Consolidated Balance Sheets
(Dollars in thousands)

	December 31, 1996 (unaudited)	June 30, 1996
ASSETS		
Current assets:		
Cash	\$ 23,238	\$ 9,078
Accounts receivable, less allowances of \$2,446 and \$2,564 at December 31 and June 30, 1996, respectively	30,896	33,984
Notes receivable, current portion, less allowances of \$342 and \$314 at December 31 and June 30, 1996, respectively	1,400	1,314
Inventories (note 3)	100,236	107,224
Prepaid expenses and other current assets	7,476	7,377
Deferred income taxes	8,593	9,305
	-----	-----
Total current assets	171,839	168,282
	-----	-----
Property, plant and equipment, net	163,299	159,634
Property, plant and equipment held for sale (note 4)	1,135	4,233
Notes receivable, net of current portion, less allowance of \$176 and \$97 at December 31 and June 30, 1996, respectively	2,523	2,561
Intangibles, net of amortization of \$12,594 and \$11,768 at December 31 and June 30, 1996, respectively	53,239	54,065
Deferred financing costs, net of amortization of \$1,709 and \$1,426 at December 31 and June 30,		

1996, respectively	1,767	1,877
Other assets	4,638	5,329
	-----	-----
Total assets	\$398,440	\$395,981
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Current maturities of long-term debt and capital lease obligations	\$ 1,878	\$ 2,498
Accounts payable	34,579	36,742
Accrued expenses	7,204	6,956
Accrued compensation and benefits	13,890	12,939
	-----	-----

Total current liabilities	57,551	59,135
	-----	-----

Long-term debt, less current maturities	63,857	79,929
Obligations under capital leases, less current maturities	2,867	2,752
Other long-term liabilities, principally long-term compensation and environmental reserves	853	1,036
Deferred income taxes	31,999	32,836
	-----	-----

Total liabilities	157,127	175,688
	-----	-----

Commitments and contingencies (note 5)	-	-
--	---	---

Shareholders' equity:

Class A common stock, par value \$.01, 35,000,000 shares authorized, and 14,568,731 shares	14,666,781	
--	------------	--

-2-

issued at December 31 and June 30, 1996 respectively	146	146
Preferred stock, par value \$.01, 1,055,000 shares authorized, no shares issued and outstanding at December 31 and June 30, 1996, respectively	-	-
Additional paid-in capital	255,170	254,971
	-----	-----
	255,316	255,117
Less: Notes receivable from officer and employees	-	(51)
Treasury stock (at cost) 264,414 and 256,480 shares at December 31 and June 30, 1996, respectively	(5,606)	(5,371)
	-----	-----
	249,710	249,695
Accumulated deficit	(8,397)	(29,402)
	-----	-----
Total shareholders' equity	241,31	220,293
	-----	-----
Total liabilities and shareholders' equity	\$398,440	\$395,981
	=====	=====

See accompanying notes to consolidated financial statements.

-3-

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY
Consolidated Statements of Income
(Unaudited)
(Dollars in thousands, except per share data)

Three Months Ended December 31, Six Months Ended December 31,

	1996	1995	1996	1995
Net sales	\$138,330	\$127,212	\$270,685	\$244,153
Cost of sales	78,409	75,857	156,186	147,327
	-----	-----	-----	-----
Gross profit	59,921	51,355	114,499	96,826
Operating expenses:				
Selling	18,875	17,857	38,035	35,626
General and administrative	19,396	18,270	38,412	36,086
	-----	-----	-----	-----
Operating income	21,650	15,228	38,052	25,114
	-----	-----	-----	-----
Interest and other miscellaneous income, net	295	287	344	590
Interest expense	1,420	2,341	3,011	4,894
Amortization of deferred financing costs	136	105	357	214
	-----	-----	-----	-----
Income before income taxes	20,389	13,069	35,028	20,596
Income tax expense	8,162	5,228	14,018	8,255
	-----	-----	-----	-----
Net income	\$ 12,227	\$ 7,841	\$ 21,010	\$ 12,341
	=====	=====	=====	=====
Per share data:				
Net income per common share	\$ 0.84	\$ 0.54	\$ 1.44	\$ 0.85
	=====	=====	=====	=====
Dividend declared per common share	\$ 0.04	\$ -	\$ 0.08	\$ -
	=====	=====	=====	=====
Weighted average common shares outstanding (in thousands)	14,621	14,472	14,627	14,536

See accompanying notes to consolidated financial statements.

-4-

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
(Unaudited)
(Dollars in thousands)

	Six Months Ended December 31,	
	1996	1995
Operating activities:		
Net income	\$ 21,010	\$ 12,341
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,855	8,586
Provision for deferred income taxes	544	(237)
Other non-cash charges	419	(71)
Change in:		
Accounts receivable	3,196	2,044
Inventories	6,988	3,903
Prepaid and other current assets	(99)	(1,124)
Other assets	68	77
Accounts payable	(2,163)	3,284
Accrued expenses	761	359
Other long-term liabilities	(183)	(31)
	-----	-----
Net cash provided by operating activities	39,396	29,131
	-----	-----
Investing activities:		
Proceeds from the disposal of property, plant	110	96

and equipment		
Proceeds from the disposal of plant, and equipment held for sale	1,945	-
Capital expenditures	(9,753)	(6,320)
Payments received on long-term notes receivable	621	977
Disbursements made for long-term notes receivable	(727)	(400)
Net cash used by investing activities	(7,804)	(5,647)
	-----	-----
Financing activities:		
Payments on revolving credit facility	(21,500)	(44,000)
Borrowings on revolving credit facility	14,500	26,500
Other long-term borrowings	440	-
Redemption of Senior Notes	(9,384)	-
Payments on long-term debt, including current maturities	(77)	(39)
Payments under capital leases	(1,039)	(805)
Issuance of capital stock	611	154
Payments to acquire treasury stock	(235)	(2,755)
Increase in deferred financing costs	(173)	(99)
Payment of dividends	(575)	-
Net cash used by financing activities	(17,432)	(21,044)
	-----	-----
Net increase in cash	14,160	2,440
Cash at beginning of period	9,078	7,546
	-----	-----
Cash at end of period	\$ 23,238	\$ 9,986
	=====	=====

See accompanying notes to consolidated financial statements.

-5-

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY
Consolidated Statements of Shareholders' Equity
Six Months Ended December 31, 1996
(Unaudited)
(Dollars in thousands)

<TABLE> <S> <C>	<C>	<C>	<C>	<C>	<C>
	Common Stock	Additional Paid-in Capital	Notes Receivable	Treasury Stock	Accumulated Deficit
Total	-----	-----	-----	-----	-----
- -----					
Balance at June 30, 1996	\$ 146	\$ 254,971	\$ (51)	\$ (5,371)	\$ (29,402)
\$ 220,293					
Issuance of capital stock	611	--		--	--
611					
Payments received on notes receivable	--	--	51	--	--
51					
Increase in management warrants	--	71	--	--	--
71					
Purchase of 7,934 shares of treasury stock	--	--	--	(235)	--
(235)					
Tax benefit associated with the exercise of employee options and warrants	--	669	--	--	--
669					
Dividends declared	--	(1,152)	--	--	--

(1,152)					
Foreign currency adjustment	--	--	--	--	(5)
(5)					
Net income	--	--	--	--	21,010
21,010					

Balance at December 31, 1996	\$ 146	\$ 255,170	\$ --	\$ (5,606)	\$ (8,397)
\$ 241,313					
=====					

</TABLE>

See accompanying notes to consolidated financial statements.

-6-

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Unaudited)

(1) 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.

(2) Interim Financial Presentation

All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

In the opinion of the Company, all adjustments, consisting only of normal recurring accruals necessary for fair presentation, have been included in the financial statements. The results of operations for the three and six months ended December 31, 1996 are not necessarily indicative of results for the fiscal year.

(3) Inventories

Inventories at December 31 and June 30, 1996 are summarized as follows (dollars in thousands):

	December 31, 1996	June 30, 1996
Retail merchandise	\$ 27,540	\$ 28,695
Finished products	31,765	39,146
Work in process	13,306	12,803
Raw materials	27,625	26,580
	-----	-----
	\$100,236	\$107,224

(4) Plant, Property Equipment Held for Sale

Property and plants held for resale are recorded at the lower of cost or net realizable values. As of July 1, 1996, the Company adopted FAS 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets To Be Disposed Of". The adoption of this standard did not have a material impact on the Company's financial position or its results of operations.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Unaudited)

(5) Contingencies

The Company has been named as a potentially responsible party ("PRP") for the cleanup of four 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"). Numerous other parties have been identified as PRP's at these sites, and the Company believes its share of waste contributed to these sites is small in relation to the total; however, liability under CERCLA may be joint and several. The Company has total reserves of \$500,000 applicable to these sites. With respect to all of these sites, 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. For three of the sites, the site assessment is at a very early stage and there has been no allocation of responsibility among the parties. Environmental assessment activity with respect to these sites is expected to continue over the next few years. With respect to the fourth site, final allocation is in the process of being negotiated.

(6) Wholly-Owned Subsidiary

The Company owns all of the outstanding stock of Ethan Allen, 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 obligations under the Credit Agreement and Senior Notes and has pledged all the outstanding capital stock of Ethan Allen to secure its guarantee under its Credit Agreement.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Unaudited)

The condensed balance sheets of Ethan Allen as of December 31 and June 30, 1996 are as follows (dollars in thousands):

	December 31, 1996	June 30, 1996
Assets		
Current assets	\$171,794	\$168,261
Non-current assets	231,187	231,163
	-----	-----
Total assets	\$402,981	\$399,424
	=====	=====
Liabilities		
Current liabilities	\$ 56,926	\$ 58,517
Non-current liabilities	99,576	116,553
	-----	-----
Total liabilities	\$156,502	\$175,070

A summary of Ethan Allen's operating activity for the three and six months

ended December 31, 1996 and 1995, is as follows (dollars in thousands):

	Three Months		Six Months	
	Ended December 31, 1996	1995	Ended December 31, 1996	1995
	-----	-----	-----	-----
Net sales	\$138,330	\$127,212	\$270,685	\$244,153
Gross profit	59,921	51,355	114,499	96,826
Operating income	21,668	15,256	38,088	25,171
Interest expense	1,420	2,341	3,011	4,894
Amortization of deferred financing costs	136	105	357	214
Income before income tax expense	20,407	13,096	35,063	20,650
Net income	12,245	7,868	21,045	12,395

-9-

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Unaudited)

7) Business Reorganization

The Company implemented a business reorganization ("Reorganization") effective July 1, 1995, which permitted the separation of manufacturing operations from distribution and store operations. This has given the Company additional flexibility to permit it to reduce its aggregate state corporate income tax liability by allocating income to the operations responsible for generating such income thereby reducing the Company's effective tax rate. The Company believes that the separation of manufacturing operations from distribution and store operations will also provide for improved measures of performance, including profitability of operations and return on assets, by allowing the Company to more easily allocate income, expenses and assets to the separate operations of the Company's business. The Reorganization consisted principally of the following elements: (i) the contribution of Ethan Allen's manufacturing equipment to Ethan Allen Manufacturing Corporation ("EAMC"), which is a newly formed, wholly-owned subsidiary of Ethan Allen (ii) the execution of operating lease arrangements between EAMC and Ethan Allen for real property used in manufacturing operations (iii) the contribution by Ethan Allen of certain of Ethan Allen's trademarks and service marks, design patents and related assets to Ethan Allen Finance Corporation ("EAFC") which is a newly formed, wholly-owned subsidiary of Ethan Allen, (iv) the full and unconditional guarantee on a senior unsecured basis of Ethan Allen's obligations under Ethan Allen's Credit Agreement and 8-3/4% Senior Notes due 2001 by each of EAMC and EAFC and Andover Wood Products Inc. ("Andover", the existing wholly-owned subsidiary of the Company) (collectively, "Guarantor Subsidiaries"), (v) the amendment of the Company's existing guarantee of Ethan Allen's obligations under the Senior Notes and the Indenture to include a guarantee of each Guarantor Subsidiary's obligations under its Subsidiary Guarantee, (vi) the execution of a management agreement and a service mark licensing agreement and a trademark licensing agreement between EAMC and EAFC, (vii) the execution of a management agreement between Ethan Allen and EAFC and (viii) the execution of a manufacturing agreement between Ethan Allen and EAMC. Ethan Allen continues to own its headquarters building in Danbury, Connecticut, the real property associated with EAMC's manufacturing operations and the assets and liabilities associated with the Ethan Allen-owned retail operations and Ethan Allen's distribution, service and home delivery operations.

-10-

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Unaudited)

The summarized historical combined balance sheet information for EAMC, EAFC, and Andover (the "Guarantor Subsidiaries") at December 31 and June 30, 1996 is as follows (dollars in thousands):

	December 31, 1996	June 30, 1996
Assets		
-----	-----	-----
Current assets	\$ 61,533	\$ 46,394
Non-current assets	165,418	164,602
	-----	-----
Total assets	\$226,951	\$210,996
	=====	=====
Liabilities		
Current liabilities	\$ 22,188	\$ 21,346
Non-current liabilities	17,917	17,939
	-----	-----
Total liabilities	\$ 40,105	\$ 39,285
	=====	=====

Summarized historical combined operating activity for the three and six months ended December 31, 1996 and 1995 is as follows (dollars in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	1996	1995	1996	1995
	----	----	----	----
Net Sales	\$ 84,769	\$ 79,629	\$162,182	\$147,594
Gross Profit	16,176	14,450	31,856	25,206
Operating income	11,519	10,264	22,808	17,127
Income before income taxes	12,630	11,356	25,017	19,239
Net income	7,641	6,871	15,135	11,640

The summarized historical financial information for the Guarantor Subsidiaries above, has been derived from the financial statements of the Company.

-11-

MANAGEMENT DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Ethan Allen's revenues are comprised of wholesale sales to dealer-owned stores and retail sales of Ethan Allen-owned stores as follows (dollars in millions):

	Three Months Ended December 31,		Six Months Ended December 31,	
	1996	1995	1996	1995
	----	----	----	----
Revenues:				
Net wholesale sales to dealer-owned stores	\$ 88.4	\$ 80.2	\$174.5	\$158.0
Net retail sales of Ethan Allen-owned stores	44.2	41.5	84.4	76.3
Other revenues	5.7	5.5	11.8	9.8
	-----	-----	-----	-----
Total	\$138.3	\$127.2	\$270.7	\$244.1
	=====	=====	=====	=====

Three Months Ended December 31, 1996 Compared to Three Months Ended December 31, 1995

Sales for the three months ended December 31, 1996 increased by \$11.1

million, or 8.7%, over the corresponding period in the prior year to \$138.3 million. Net sales by Ethan Allen-owned stores increased \$2.7 million or 6.5% to \$44.2 million and net sales to dealer-owned stores increased \$8.2 million or 10.2% to \$88.4 million. The increase in sales to dealer-owned stores has resulted from increased distribution through relocated stores, improved effectiveness of existing stores, newer product offerings, a coordinated advertising program, and growth in international sales. At December 31, 1996, there were 290 total stores, of which 232 were dealer-owned, as compared to 298 total stores, of which 238 were dealer-owned at December 31, 1995. The net decrease in the number of stores is primarily due to the closing of 14 smaller, under-performing stores in Japan, which were replaced by 3 larger, high-volume stores in fiscal 1996.

The increase in retail sales by Ethan Allen-owned stores is attributable to a 7.5%, or \$3.0 million, increase in comparable store sales, and sales generated by newly opened or acquired stores of \$1.5 million, partially offset by closed stores, which generated \$1.8 million less in sales in the three months ended December 31, 1996, as compared to the three months ended December 31, 1995.

Comparable stores are stores that, if newly opened, have been open for at least 15 months. Ethan Allen's retail business is principally special order and minimal net sales are generated during the first three months of operations of newly opened stores. Stores acquired from dealers by Ethan

-12-

Allen are included in comparable store sales in their thirteenth full month of Ethan Allen-owned operations.

Gross profit for the three months ended December 31, 1996 increased by \$8.5 million, or 16.7% from the three months ended December 31, 1995 to \$59.9 million. This increase is attributable to higher sales volume, combined with an increase in gross margin from 40.4% in the three months ended December 31, 1995 to 43.3% in the three months ended December 31, 1996. Gross margins have been favorably impacted by increased sales volume, greater manufacturing efficiencies, improvements in manufacturing technology, full benefit of the recent price increases, and higher retail gross margins. These factors are partially offset by higher medical and employee benefit costs as well as an increase in the price of certain raw materials.

Selling, general and administrative expenses increased \$2.1 million from \$36.1 million, or 28.4% of net sales, in the three months ended December 31, 1995 to \$38.3 million, or 27.7% of net sales, in the three months ended December 31, 1996. This increase is principally attributable to an increase in the operating expenses of Ethan Allen-owned stores of \$.6 million due to higher sales volumes. The remaining increase can be attributed to expenses associated with the higher wholesale sales.

Operating income for the three months ended December 31, 1996 was \$21.7 million (15.7% of sales), an increase of \$6.5 million as compared to the three months ended December 31, 1995. Wholesale operating income was \$19.1 million for the three months ended December 31, 1996, reflecting an increase of \$5.0 million as compared to the prior year period. The improvement in wholesale operating income is primarily due to a \$12.1 million increase in wholesale sales combined with a 2.1% improvement in wholesale gross margin to 34.4%. Retail operating income was \$2.9 million for the three months ended December 31, 1996, an increase of \$1.0 million from the prior year. The higher retail sales volumes and improved gross margin were partially offset by higher operating expenses due to the higher sales volumes.

Interest expense, including the amortization of deferred financing costs, for the three months ended December 31, 1996 decreased by \$0.9 million to \$1.5 million from \$2.4 million in the three months ended December 31, 1995. The lower expense reflects the lower debt balances outstanding.

Income tax expense of \$8.2 million or an effective tax rate of 40.0% was recorded for the three months ended December 31, 1996, as compared to \$5.2 million or an effective tax rate of 40.0% in the prior year quarter.

For the three months ended December 31, 1996, the Company recorded net income of \$12.2 million, compared to net income for the three months ended December 31, 1995 of \$7.8 million.

-13-

Six Months Ended December 31, 1996 Compared to Six Months Ended December 31, 1995

Sales for the six months ended December 31, 1996 increased by \$26.5 million, or 10.9%, over the six months ended December 31, 1995 to \$270.6 million. Net retail sales by Ethan Allen-owned stores increased by 10.6% to \$84.4 million and sales to dealer-owned stores increased by 10.4% to \$174.5 million. The increase in sales to dealer-owned stores has resulted from increased distribution through relocated stores, improved effectiveness of existing stores, newer product offerings, and growth in international sales.

The increase in retail sales by Ethan Allen-owned stores is attributable to a 10.0% or \$7.1 million increase in comparable store sales, and an increase in sales generated by newly opened or acquired stores of \$3.5 million, partially offset by closed stores which generated \$2.5 million less in sales in the six months ended December 31, 1996 as compared to the six months ended December 31, 1995.

Gross profit for the six months ended December 31, 1996 increased by \$17.7 million from the six months ended December 31, 1995 to \$114.5 million. This increase is attributable to higher sales volume and an improvement in gross margin from 39.7% in the six months ended December 31, 1995 to 42.3% in the six months ended December 31, 1996. The gross margin percentage improved due to greater manufacturing efficiencies, improvements in manufacturing technology, and the full benefit of recent price increases, partially offset by higher medical and employee benefit costs as well as an increase in the price of certain raw materials. Additionally, the prior year margin was negatively impacted by \$.8 million of costs related to extended plant shutdowns.

Selling, general and administrative expenses increased \$4.7 million from \$71.7 million or 29.4% of net sales, in the fiscal 1996 period to \$76.4 million, or 28.2% of net sales, in the fiscal 1997 period. This increase is attributable principally to an increase in operating expenses in the Company's retail division of \$1.9 million due to higher sales volumes. The remaining increase is attributable to the increase in wholesale shipments combined with higher employee medical and benefit costs.

Operating income for the six months ended December 31, 1996 was \$38.1 million (14.1% of sales), an increase of \$13.0 million, as compared to the six months ended December 31, 1995. Wholesale operating income was \$34.4 million for the six months ended December 31, 1996, an increase of \$10.7 million as compared to the six months ended December 31, 1995. This increase is attributable to higher sales volumes and an improved gross margin. Retail operating income was \$4.2 million for the six months ended December 31, 1996. This represents a \$2.4 million increase from the six months ended December 31, 1995. This increase is attributable to higher sales volumes and an improved gross margin partially offset by higher operating expenses due to the higher sales volumes.

-14-

Interest expense, including the amortization of deferred financing costs, for the six months ended December 31, 1996 decreased by \$1.7 million to \$3.4 million, from \$5.1 million in the fiscal 1996 period, due to lower debt balances outstanding.

Income tax expense of \$14.0 million or an effective tax rate of 40.0%, was recorded for the six months ended December 31, 1996, as compared to \$8.3 million or an effective rate of 40.0% in the prior year period.

For the six months ended December 31, 1996, the Company recorded net income of \$21.0 million, compared to net income for the six months ended December 31, 1995 of \$12.3 million.

Financial Condition and Liquidity

Principal sources of liquidity are cash flow from operations and additional borrowing capacity under the revolving credit facility. Net cash provided by operating activities totaled \$39.4 million for the six months ended December 31, 1996, as compared to \$29.1 million in the six months ended December 31, 1995. The increase is due principally to higher net income of \$8.7 million. At December 31, 1996, the Company had working capital of \$114.3 million and a current ratio of 2.99 to 1.

During the six months ended December 31, 1996, capital spending totaled

\$9.8 million as compared to \$6.3 million in the six months ended December 31, 1995. Capital expenditures in fiscal 1997 are anticipated to be approximately \$18.0 million. The Company anticipates that cash from operations will be sufficient to fund this level of capital expenditures. The current level of anticipated capital spending, which is attributable primarily to manufacturing efficiency improvements and new store openings, is expected to continue for the foreseeable future.

Total debt outstanding at December 31, 1996 is \$68.6 million. At December 31, 1996 there are no outstanding revolving loans under the Credit Agreement. Trade and standby letters of credit of \$14.3 million were outstanding as of December 31, 1996. During the quarter ended December 31, 1996, the Company amended its Credit Agreement with Chase Manhattan Bank as agent. Amendments to the Credit Agreement include: (1) the reduction of the commitment of senior secured debt under a revolving credit facility to \$100.0 million, (2) reduction of interest rates to adjusted LIBOR plus .45% which is subject to adjustment arising from changes in the credit rating of Ethan Allen's senior secured debt or Fixed Charge Ratio, (3) elimination of a lien on certain fixed assets as collateral and (4) amendment of certain additional debt and restricted payment limitations. In connection with the Amended and Restated Credit Agreement, \$173,000 in additional deferred financing fees were incurred. These charges will be amortized over the remaining life of the credit agreement.

Other debt includes \$52.6 million of outstanding Senior Notes which have a final maturity in 2001, with no scheduled amortization prior to final maturity. The Senior Notes may not be redeemed at the option of the Company

-15-

until March 15, 1998. Therefore, the Company does not anticipate that any Senior Notes will be repaid until this date; however, the Company may from time to time, either directly or through agents, repurchase its Senior Notes in the open market, through negotiated purchases or otherwise, at prices and on terms satisfactory to the Company. During the six months ended December 31, 1996, \$9.4 million principal amount was repurchased. The Company may also, from time to time, either directly or through agents, repurchase its common stock in the open market through negotiated purchases or otherwise, at prices and on terms satisfactory to the Company. Depending on market prices and other conditions relevant to the Company, such purchases may be discontinued at any time. During the six months ended December 31, 1996, the Company purchased 7,934 shares of its stock on the open market at an average price of \$29.62 per share.

As of December 31, 1996, aggregate scheduled maturities of long-term debt for each of the next five fiscal years are \$.1 million, \$.1 million, \$.4 million, \$.2 million and \$52.8 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.

-16-

PART II. OTHER INFORMATION

Item 1. - Legal Proceedings

There has been no change to matters discussed in Business-Legal Proceedings in Company's Form 10-K as filed with the Securities and Exchange Commission on September 27, 1996.

Item 2. - Changes in Securities

There has been no change to matters discussed in Description and Ownership of Capital Stock in the Company's Form 10-K as filed with the Securities and Exchange Commission on September 27, 1996, except that pursuant to the November 4, 1996 Annual Meeting, the shareholders approved an Amendment to the 1992 Stock Option Plan to increase by 600,000 the authorized shares reserved for use in connection with the Stock Option Plan.

Item 6. - Exhibits and Reports on Form 8-K

- 4(k)-3 Amended and Restated Senior Secured Revolving Credit Facility dated as of March 10, 1995, as amended and restated as of December 4, 1996, between Ethan Allen Inc. and the Chase Manhattan Bank
- 4(t) Security Agreement, dated as of March 10, 1995, between Ethan Allen Inc. and the Chase Manhattan Bank
- 11 Statement Re: Computation of Per Share Earnings
- 27 Financial Data Schedule

-17-

SIGNATURES

Pursuant to the requirements 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)

DATE: 2/13/97 BY: /s/ M. Farooq Kathwari

M. Farooq Kathwari
Chairman of the Board
President and Chief
Executive Officer
(Principal Executive Officer)

DATE: 2/13/97 BY: /s/ Edward P. Schade

Edward P. Schade
Vice President &
Treasurer
(Principal Financial Officer)

DATE: 2/13/97 BY: /s/ Gerardo Burdo

Gerardo Burdo
Corporate Controller
(Principal Accounting Officer)

-18-

INDEX TO EXHIBITS

- 4(k)-3 Amended and Restated Senior Secured Revolving Credit Facility dated as of March 10, 1995, as amended and restated as of December 4, 1996, between Ethan Allen Inc. and the Chase Manhattan Bank.
- 4(t) Security Agreement, dated as of March 10, 1995, between Ethan Allen Inc. and the Chase Manhattan Bank.
- 11 Statement Re: Computation of Per Share Earnings
- 27 Financial Data Schedule

SECURITY AGREEMENT dated as of March 10, 1995, among ETHAN ALLEN INC., a Delaware corporation (the "Borrower"); the subsidiaries of the Borrower listed on Schedule I hereto (collectively, the "Subsidiary Grantors"; the Borrower and the Subsidiary Grantors being collectively called the "Grantors"); and CHEMICAL BANK, a New York banking corporation, as collateral agent (in such capacity, the "Collateral Agent") for the Secured Parties, as defined herein.

Reference is made to the Credit Agreement dated as of March 10, 1995 (as amended or modified from time to time, the "Credit Agreement"), among the Borrower, Ethan Allen Interiors Inc. ("Holdings"), the financial institutions party thereto, as lenders (the "Lenders") and Chemical Bank, as administrative agent (in such capacity, the "Administrative Agent").

The Lenders have agreed to extend credit to, and the Issuing Bank has agreed to issue Letters of Credit for the account of, the Borrower pursuant to, and subject to the terms and conditions specified in, the Credit Agreement. Each of Holdings and the Subsidiary Grantors has agreed to guarantee, among other things, all the obligations of the Borrower under the Credit Agreement. The obligations of the Lenders to extend credit and of the Issuing Bank to issue Letters of Credit under the Credit Agreement are conditioned upon, among other things, the execution and delivery by the Grantors of a security agreement in the form hereof to secure (a) the due and punctual payment by the Borrower of (i) the principal of and interest on the Loans, when and as due, whether at maturity, by acceleration, upon one or more dates set for prepayment or otherwise, (ii) each payment required to be made by the Borrower under the Credit Agreement in respect of any Letter or Letters of Credit, when and as due, including payments in respect of reimbursement of disbursements, interest thereon and obligations to provide cash collateral and (iii) all other monetary obligations of the Borrower to the Secured Parties under the Credit Agreement and the other Loan Documents to which the Borrower is or is to be a party, (b) the due and punctual performance of all other obligations of the Borrower under the Credit Agreement and the other Loan Documents to which the Borrower is or is to be a party, (c) the due and punctual payment and performance of all obligations of the Borrower under each Rate Protection Agreement entered into with any counterparty that was a Lender at the time such Rate Protection Agreement was entered into and (d) the due and punctual payment and performance

of all obligations of each of Holdings and the Subsidiary Grantors under the Loan Documents to which it is or is to be a party (all of the foregoing obligations being collectively called the "Obligations").

Accordingly, the Grantors and the Collateral Agent hereby agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.01. Terms Defined in the Credit Agreement. Terms used herein and not otherwise defined herein shall have the meanings set forth in the Credit Agreement.

SECTION 1.02. Definitions of Certain Terms Used Herein. As used herein, the following terms shall have the following meanings:

"Account Debtor" shall mean any person who is or who may become obligated to a Grantor under, with respect to or on account of an Account.

"Accounts" shall mean any and all rights of any Grantor to payment for goods or services sold or leased, including any such right evidenced by chattel paper, whether due or to become due, whether or not earned by performance and

whether now existing or arising in the future, including accounts receivable from Affiliates of the Grantors, but excluding Dealer Notes.

"Accounts Receivable" shall mean all Accounts and all rights in any returned goods, together with all rights, titles, securities and guarantees with respect thereto, including any rights to stoppage in transit, replevin, reclamation and resales, and all related security interests, liens and pledges, whether voluntary or involuntary.

"Collateral" shall mean (i) Accounts Receivable, (ii) Documents, (iii) General Intangibles, (iv) Intercompany Claims, (v) Inventory, (vi) Proceeds and (vii) Collection Deposit Accounts; provided that Excluded Assets shall not constitute Collateral.

"Collection Deposit Account" shall mean a lockbox account of a Grantor maintained for the benefit of the Secured Parties with the Collateral Agent pursuant to Article V or with a Sub-Agent pursuant to a Lockbox Agreement.

-2-

"Copyright License" shall mean any written agreement, now or hereafter in effect, granting any right to any third party under any Copyright now or hereafter owned by any Grantor or which such Grantor otherwise has the right to license, or granting any right to such Grantor under any Copyright now or hereafter owned by any third party, and all rights of such Grantor under any such agreement.

"Copyrights" shall mean all of the following now owned or hereafter acquired by any Grantor: (i) all copyright rights in any work subject to the copyright laws of the United States or any other country, whether as author, assignee, transferee or otherwise, and (ii) all registrations and applications for registration of any such copyright in the United States or any other country, including registrations, recordings, supplemental registrations and pending applications for registration in the United States Copyright Office, including those listed on Schedule II.

"Credit Agreement" shall have the meaning assigned to such term in the preliminary statement of this Agreement.

"Documents" shall mean all instruments, files, records, ledger sheets and documents covering or relating to any of the Collateral.

"Excluded Assets" shall mean fixtures, equipment, motor vehicles, any other tangible personal property (except Inventory), Dealer Notes and rights (whether as lessor or lessee) under leases.

"General Intangibles" shall mean all choses in action and causes of action and all other assignable intangible personal property of any Grantor of every kind and nature (other than Accounts Receivable) now owned or hereafter acquired by any Grantor, including corporate or other business records, contract rights (including rights under Rate Protection Agreements and other agreements, but excluding rights under leases, whether entered into as lessor or lessee), Intellectual Property, goodwill, registrations, franchises, tax refund claims and any letter of credit, guarantee, claim, security interest or other security held by or granted to any Grantor to secure payment by an account debtor of any of the Accounts Receivable.

"Intellectual Property" shall mean all intellectual and similar property of any Grantor of every kind and nature now owned or hereafter acquired by any Grantor, including inventions, designs, Patents, Copyrights, Licenses, Trademarks, trade secrets, confidential or proprietary technical and business information, know-how, show-how or other data or information, software and databases and all embodiments or fixations thereof

-3-

and related documentation, registrations and franchises, and all additions, improvements and accessions to, and books and records describing or used in connection with, any of the foregoing.

"Intercompany Claims" shall mean any and all rights of any Grantor in respect of loans, advances or other claims owed to such Grantor by any of Holdings, the Borrower or any Subsidiary, other than Accounts and other than

loans, advances or other claims evidenced by an instrument pledged pursuant to the Pledge Agreement.

"Inventory" shall mean all goods of a Grantor, whether now owned or hereafter acquired, held for sale or lease, or furnished or to be furnished by a Grantor under contracts of service, or consumed in a Grantor's business, including raw materials, intermediates, work in progress, packaging materials, finished goods, semi-finished inventory, scrap inventory, manufacturing supplies and spare parts, and all such goods that have been returned to or repossessed by or on behalf of any Grantor.

"License" shall mean any Patent License, Trademark License, Copyright License or other license or sublicense to which any Grantor is a party, including those listed on Schedule III (other than those license agreements in existence as of the date hereof and listed on Schedule III and those license agreements entered into after the date hereof, which by their terms prohibit assignment or a grant of a security interest by such Grantor as licensee thereunder).

"Lockbox Agreement" shall mean a Lockbox Agreement substantially in the form of Annex 1 hereto among a Grantor, the Collateral Agent and a Sub-Agent.

"Obligations" shall have the meaning assigned to such term in the preliminary statement of this Agreement.

"Patent License" shall mean any written agreement, now or hereafter in effect, granting to any third party any right to make, use or sell any inventory on which a Patent, now or hereafter owned by any Grantor or which such Grantor otherwise has the right to license, is in existence, or granting to such Grantor any right to make, use or sell any invention on which a Patent, now or hereafter owned by any third party, is in existence, and all rights of such Grantor under any such agreement.

"Patents" shall mean all of the following now owned or hereafter acquired by any Grantor: (i) all letters Patent of the United States or any other country, all registrations and recordings thereof, and all applications for letters Patent of the United States or any other country, including registrations,

-4-

recordings and pending applications in the United States Patent and Trademark Office or any similar offices in any other country, including those listed on Schedule IV, and (ii) all reissues, continuations, divisions, continuations-in-part, renewals or extensions thereof, and the inventions disclosed or claims therein, including the right to make, use and/or sell the inventions disclosed or claimed therein.

"Perfection Certificate" means a certificate substantially in the form of Annex 2 hereto, completed and supplemented with the schedules and attachments contemplated thereby, and duly executed by a Financial Officer and the chief legal officer of the Borrower.

"Proceeds" shall mean any consideration received from the sale, exchange, license, lease or other disposition of any asset or property which constitutes Collateral, any value received as a consequence of the possession of any Collateral and any payment received from any insurer or other person or entity as a result of the destruction, loss, theft, damage or other involuntary conversion of whatever nature of any asset or property which constitutes Collateral, and shall include (a) all cash and negotiable instruments received or held on behalf of the Collateral Agent pursuant to the Lockbox Agreements or any other lockbox or similar arrangement relating to the payment of Accounts Receivable and Inventory and (b) any claim of any Grantor against any third party for (and the right to sue and recover for and the rights to damages or profits due or accrued arising out of or in connection with) (i) past, present or future infringement of any Patent now or hereafter owned by any Grantor or licensed under a Patent License, (ii) past, present or future infringement or dilution of any Trademark now or hereafter owned by any Grantor or licensed under a Trademark License or injury to the goodwill associated with or symbolized by any Trademark now or hereafter owned by any Grantor, (iii) past, present or future breach of any License, (iv) past, present or future infringement of any Copyright now or hereafter owned by any Grantor or licensed under a Copyright License, and (v) any and all other amounts from time to time paid or payable under or in connection with any of the Collateral.

"Secured Parties" shall mean (a) the Lenders party to the Credit Agreement, (b) each counterparty to a Rate Protection Agreement entered into with the Borrower, if such counterparty was a Lender at the time such Rate Protection Agreement was entered into, (c) the Administrative Agent, the Collateral Agent and the Issuing Bank, in their capacities as such under each

Loan Document, (d) the beneficiaries of each indemnification obligation undertaken by any Grantor under any Loan Document, and (e) the successors and assigns of the foregoing.

-5-

"Security Interest" shall have the meaning assigned to such term in Section 2.01.

"Sub-Agent" shall mean a financial institution which shall have delivered to the Collateral Agent an executed Lockbox Agreement.

"Trademark License" shall mean any written instrument, now or hereafter in effect, granting to any third party any right to use any Trademark now or hereafter owned by any Grantor or which such Grantor otherwise has the right to license, or granting to such Grantor any right to use any Trademark now or hereafter owned by any third party, and all rights of such Grantor under any such agreement.

"Trademarks" shall mean all of the following now owned or hereafter acquired by any Grantor: (i) all trademarks, service marks, trade names, corporate names, company names, business names, fictitious business names, trade styles, trade dress, logos, other source or business identifiers, designs and general intangibles of like nature, now existing or hereafter adopted or acquired, all registrations and recordings thereof, and all registration and recording applications filed in connection therewith, including registrations and registration applications in the United States Patent and Trademark Office, any State of the United States or any similar offices in any other country or any political subdivision thereof, and all extensions or renewals thereof, including those listed on Schedule V, (ii) all goodwill associated therewith or symbolized thereby, and (iii) all other assets, rights and interests that uniquely reflect or embody such goodwill.

SECTION 1.03. Rules of Interpretation. The rules of interpretation specified in Section 1.02 of the Credit Agreement shall be applicable to this Agreement.

ARTICLE II

SECURITY INTEREST

SECTION 2.01. Security Interest. As security for the payment or performance, as the case may be, of the Obligations, each Grantor hereby bargains, sells, conveys, assigns, sets over, mortgages, pledges, hypothecates and transfers to the Collateral Agent, its successors and its assigns, for the benefit of the Secured Parties, and hereby grants to the Collateral Agent, its successors and assigns, for the benefit of the Secured Parties, a security interest in, all of such Grantor's right, title and interest in, to and under the Collateral (the "Security Interest"). Without limiting the foregoing, the Collateral Agent

-6-

is hereby authorized to file one or more financing statements, continuation statements, filings with the United States Patent and Trademark Office or United States Copyright Office (or any successor office or any similar office in any other country) or other documents for the purpose of perfecting, confirming, continuing, enforcing or protecting the Security Interest granted by each Grantor, without the signature of any Grantor, naming any Grantor or the Grantors as debtors and the Collateral Agent as secured party.

The Grantors agree at all times to keep accurate and complete accounting records with respect to the Collateral, including a record of all payments and Proceeds received.

SECTION 2.02. No Assumption of Liability. The Security Interest is granted as security only and shall not subject the Collateral Agent or any Secured Party to, or in any way alter or modify, any obligation or liability of any Grantor with respect to or arising out of any of the Collateral.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

The Grantors jointly and severally represent and warrant to the Collateral Agent and the Lenders that:

SECTION 3.01. Title and Authority. Each of the Grantors has good and valid rights in and title to the Collateral with respect to which it has purported to grant a Security Interest hereunder and has full power and authority to grant to the Collateral Agent the Security Interest in such Collateral pursuant hereto and to execute, deliver and perform its obligations in accordance with the terms of this Agreement, without the consent or approval of any other person other than any consent or approval which has been obtained.

SECTION 3.02. Filings. (a) The Perfection Certificate has been duly prepared, completed and executed and the information set forth therein is correct and complete. Fully executed Uniform Commercial Code financing statements or other appropriate filings, recordings or registrations containing a description of the Collateral have been delivered to the Collateral Agent for filing in each governmental, municipal or other office specified in Schedule 6 to the Perfection Certificate, which are all the filings, recordings and registrations (other than filings required to be made in the United States Patent and Trademark Office and the United States Copyright Office in order to perfect the Security Interest in Collateral consisting of United States Patents, registered trademarks and registered copyrights) that

-7-

are necessary to publish notice of and protect the validity of and to establish a legal, valid and perfected security interest in favor of the Collateral Agent (for the benefit of the Secured Parties) in respect of all Collateral in which the Security Interest may be perfected by filing, recording or registration in the United States (or any political subdivision thereof) and its territories and possessions, and no further or subsequent filing, refiling, recording, rerecording, registration or reregistration is necessary in any such jurisdiction, except as provided under applicable law with respect to the filing of continuation statements.

(b) Each Grantor shall ensure and warrants that fully executed security agreements in the form hereof and containing a description of all Collateral consisting of Intellectual Property shall have been received and recorded within three months after the execution of this Agreement with respect to United States Patents and United States registered Trademarks (and Trademarks for which United States registration applications are pending) and within three months after the execution of this Agreement with respect to United States registered Copyrights by the United States Patent and Trademark Office and the United States Copyright Office pursuant to 35 U.S.C. ss. 261, 15 U.S.C. ss. 1060 or 17 U.S.C. ss. 205 and the regulations thereunder, as applicable, and otherwise as may be required pursuant to the laws of any jurisdiction outside the United States where any Trademarks, Copyrights or Patents are registered (a "Foreign Registration Jurisdiction") to protect the validity of and to establish a legal, valid and perfected security interest in favor of the Collateral Agent (for the benefit of the Secured Parties) in respect of all Collateral consisting of Patents, Trademarks and Copyrights in which a security interest may be perfected by filing, recording or registration in the United States (or any political subdivision thereof) and its territories and possessions or in any Foreign Registration Jurisdiction and no further or subsequent filing, refiling, recording, rerecording, registration or reregistration is necessary (other than such actions as are necessary to perfect the Security Interest with respect to any Collateral consisting of Patents, Trademarks and Copyrights (or registration or application for registration thereof) acquired or developed after the date hereof).

SECTION 3.03. Validity of Security Interest. The Security Interest constitutes (a) a legal and valid security interest in all the Collateral securing the payment and performance of the Obligations, (b) subject to the filings described in Section 3.02 above, a perfected security interest in all Collateral in which a security interest may be perfected by filing, recording or registering a financing statement or analogous document in the United States (or any political subdivision thereof) and its territories and possessions pursuant to the Uniform Commercial

-8-

Code or other applicable law in such jurisdictions or in any Foreign Registration Jurisdiction and (c) a security interest that shall be perfected in

all Collateral in which a security interest may be perfected upon the receipt and recording of this Agreement with the United States Patent and Trademark Office and the United States Copyright Office, as applicable, within the three-month period (commencing as of the date hereof) pursuant to 35 U.S.C. ss. 261 or 15 U.S.C. ss. 1060 or the three-month period (commencing as of the date hereof) pursuant to 17 U.S.C. ss. 205 and otherwise as may be required pursuant to the laws of any Foreign Registration Jurisdiction. The Security Interest is and shall be prior to any other Lien on any of the Collateral.

SECTION 3.04. Absence of Other Liens. The Collateral is owned by the Grantors free and clear of any Lien, except for Liens expressly permitted by the Credit Agreement. Other than as contemplated hereby and except for filings expressly permitted by the Credit Agreement, none of the Grantors has filed or consented to the filing of (a) any financing statement or analogous document under the Uniform Commercial Code or any other applicable laws covering any Collateral, (b) any assignment in which any Grantor assigns any Collateral or any security agreement or similar instrument covering any Collateral with the United States Patent and Trademark Office or the United States Copyright Office or (c) any assignment in which any Grantor assigns any Collateral or any security agreement or similar instrument covering any Collateral with any foreign governmental, municipal or other office.

SECTION 3.05. Intellectual Property. Schedules II, III, IV and V hereto set forth accurate and complete descriptions of all Copyrights, Licenses, Patents and Trademarks of each Grantor.

ARTICLE IV

COVENANTS

SECTION 4.01. Change of Name; Location of Collateral; Records; Place of Business. (a) Each of the Grantors agrees promptly to notify the Collateral Agent of any change (i) in its corporate name or in any trade name used to identify it in the conduct of its business or in the ownership of its properties, (ii) in the location of its chief executive office, its principal place of business, any office in which it maintains books or records relating to Collateral owned by it or any office or facility at which Collateral owned by it is located (including the establishment of any such new office or facility) or (iii) in its identity or corporate structure. Each of the Grantors agrees not to effect or permit any change referred to in the preceding sentence unless all filings have been made under the Uniform

-9-

Commercial Code or otherwise which are required in order for the Collateral Agent to continue at all times following such change to have a valid, legal and perfected security interest in all the Collateral. Each of the Grantors agrees promptly to notify the Collateral Agent if any material portion of the Collateral is damaged or destroyed.

(b) Each of the Grantors agrees to maintain complete and accurate records with respect to the Collateral owned by it and, at such time or times as the Collateral Agent may request, promptly to prepare and deliver to the Collateral Agent a duly certified schedule or schedules in form and detail satisfactory to the Collateral Agent showing the identity, amount and location of any and all Collateral.

SECTION 4.02. Post-Closing Certification. Within three months after the Closing Date, the Borrower shall deliver to the Collateral Agent a certificate executed by a Financial Officer and the chief legal officer of the Borrower setting forth, with respect to each filing, recording or registration contemplated by Section 3.02(b), the filing office, date and file number thereof and attaching true, correct and complete acknowledgement copies of each such filing, recording or registration.

SECTION 4.03. Protection of Security. Each of the Grantors shall, at its own cost and expense, take any and all actions necessary to defend title to the Collateral against all persons and to defend the Security Interest of the Collateral Agent in the Collateral and the priority thereof against any Liens not expressly permitted under the Credit Agreement.

SECTION 4.04. Further Assurances. Each of the Grantors agrees, at its expense, to execute, acknowledge, deliver and cause to be duly filed all such further instruments and documents and take all such actions as the Collateral Agent may from time to time reasonably request to better assure, preserve, protect and perfect the Security Interest and the rights and remedies created hereby, including the payment of any fees and taxes required in connection with the execution and delivery of this Agreement, the granting of the Security Interest and the filing of any financing statements or other documents in

connection herewith. If any amount payable under or in connection with any of the Collateral shall be or become evidenced by any promissory note or other instrument, such note or instrument shall be immediately pledged and delivered to the Collateral Agent, duly endorsed in a manner satisfactory to the Collateral Agent.

Without limiting the generality of the foregoing, each Grantor hereby authorizes the Collateral Agent, with prompt notice thereof to the Grantors, to supplement this Agreement by supplementing Schedule II, III, IV or V hereto or adding

-10-

additional schedules hereto to specifically identify any asset or item that may constitute Copyrights, Licenses, Patents or Trademarks; provided, however, that any Grantor shall have the right, exercisable within 10 days after it has been notified by the Collateral Agent of the specific identification of such Collateral, to advise the Collateral Agent in writing of any inaccuracy of the representations and warranties made by such Grantor hereunder with respect to such Collateral. Each Grantor agrees that it will use its best efforts to take such action as shall be necessary in order that all representations and warranties hereunder shall be true and correct with respect to such Collateral within 30 days after the date it has been notified by the Collateral Agent of the specific identification of such Collateral.

SECTION 4.05. Intercompany Claims. If at any time any Intercompany Claim is evidenced by any promissory note or other instrument, the applicable Grantor shall promptly pledge such note or other instrument pursuant to the Pledge Agreement.

SECTION 4.06. Taxes; Encumbrances. At its option, the Collateral Agent may discharge past due taxes, assessments, charges, fees, liens, security interests or other encumbrances at any time levied or placed on the Collateral and not permitted under the Credit Agreement, and may pay for the maintenance and preservation of the Collateral to the extent any of the Grantors fails to do so as required by the Credit Agreement or this Agreement, and each of the Grantors jointly and severally agrees to reimburse the Collateral Agent on demand for any payment made or any expense incurred by the Collateral Agent pursuant to the foregoing authorization; provided, however, that nothing in this Section shall be interpreted as excusing any Grantor from the performance of, or imposing any obligation on the Collateral Agent or any Secured Party to cure or perform, any covenants or other promises of any Grantor with respect to taxes, assessments, charges, fees, liens, security interests or other encumbrances and maintenance as set forth herein or in the Credit Agreement.

SECTION 4.07. Assignment of Security Interest. If at any time any of the Grantors shall take and perfect a security interest in any property of an Account Debtor or any other person to secure payment and performance of an Account, such Grantor shall promptly assign such security interest to the Collateral Agent. Such assignment need not be filed of public record unless necessary to continue the perfected status of the security interest against creditors of and transferees from the Account Debtor or other person granting the security interest.

SECTION 4.08. Continuing Obligations of the Grantors. Each of the Grantors shall remain liable to observe and perform all the conditions and obligations to be observed and performed by it

-11-

under each contract, agreement or instrument relating to the Collateral, all in accordance with the terms and conditions thereof, and the Grantors jointly and severally agree to indemnify and hold harmless the Collateral Agent and the Secured Parties from and against any and all liability for such performance.

SECTION 4.09. Use and Disposition of Collateral. None of the Grantors shall make or permit to be made an assignment, pledge or hypothecation of the Collateral or shall grant any other Lien in respect of the Collateral except as expressly permitted by the Credit Agreement. None of the Grantors shall make or permit to be made any transfer of the Collateral and each Grantor shall remain at all times in possession of the Collateral owned by it, except that (a) Inventory may be sold in the ordinary course of business and (b) unless and until the Collateral Agent shall notify the Grantors that an Event of Default shall have occurred and be continuing and that during the continuance thereof the Grantors shall not sell, convey, lease, assign, transfer or otherwise

dispose of any Collateral (which notice may be given by telephone if promptly confirmed in writing), the Grantors may use and dispose of the Collateral in any lawful manner not inconsistent with the provisions of this Agreement, the Credit Agreement or any other Loan Document. Without limiting the generality of the foregoing, each Grantor agrees that (i) it shall not permit any Inventory to be in the possession or control of any warehouseman, bailee, agent or processor at any time unless such possession or control will not effect the perfection and priority of the Security Interest in such Inventory or arrangements are made so that such perfection and priority will not be affected and (ii) if any warehouse receipt (or other receipt in the nature of a warehouse receipt) is issued with respect to any Inventory, such receipt shall be delivered to the Collateral Agent.

SECTION 4.10. Limitation on Modification of Accounts. None of the Grantors will, without the Collateral Agent's prior written consent, grant any extension of the time of payment of any of the Accounts Receivable, compromise, compound or settle the same for less than the full amount thereof, release, wholly or partly, any person liable for the payment thereof or allow any credit or discount whatsoever thereon, other than extensions, credits, discounts, compromises or settlements granted or made in the ordinary course of business or otherwise in accordance with prudent and reasonable business practices.

SECTION 4.11. Insurance. (a) The Borrower, at its own expense, shall maintain or cause to be maintained insurance covering physical loss or damage to the Inventory in accordance with the provisions of the Credit Agreement. All such policies of insurance shall be endorsed or otherwise amended to include a

-12-

lender's loss payable endorsement, in form and substance satisfactory to the Collateral Agent, which shall provide that from and after the date, if any, on which the insurance carrier receives written notice from the Collateral Agent that an Event of Default has occurred, all proceeds otherwise payable to the Borrower or any other Grantor under such policies shall be payable directly to the Collateral Agent. Such endorsement or an independent instrument furnished to the Collateral Agent shall provide that the insurance carriers will give the Collateral Agent at least 30 days' prior written notice before any such policy or policies of insurance shall be altered or canceled and that no act or default of any Grantor or any other person shall affect the right of the Collateral Agent to recover under such policy or policies of insurance in case of loss or damage.

(b) Each Grantor irremovably makes, constitutes and appoints the Collateral Agent (and all officers, employees or agents designated by the Collateral Agent) as such Grantor's true and lawful agent (and attorney-in-fact) for the purpose, during the continuance of an Event of Default, of making, settling and adjusting claims in respect of Collateral under policies of insurance, endorsing the name of such Grantor on any check, draft, instrument or other item of payment for the proceeds of such policies of insurance and for making all determinations and decisions with respect thereto. In the event that any Grantor at any time or times shall fail to obtain or maintain any of the policies of insurance required hereby to pay any premium in whole or part relating thereto, the Collateral Agent may, without waiving or releasing any obligation or liability of the Grantors hereunder or any Event of Default, in its sole discretion, obtain and maintain such policies of insurance and pay such premium and take any other actions with respect thereto as the Collateral Agent deems advisable. All sums disbursed by the Collateral Agent in connection with this Section, including reasonable attorneys' fees, court costs, expenses and other charges relating thereto, shall be payable, upon demand, by the Grantors to the Collateral Agent and shall be additional Obligations secured hereby.

SECTION 4.12. Covenants Regarding Patent, Trademark and Copyright Collateral. (a) Each Grantor agrees that it will not, nor will it permit any of its licensees to, do any act, or omit to do any act, whereby any Patent which is material to the conduct of such Grantor's business may become invalidated or dedicated to the public, and agrees that it shall continue to mark any products covered by a Patent with the relevant Patent number as necessary and sufficient to establish and preserve its maximum rights under applicable Patent laws.

(b) Each Grantor (either itself or through its licensees or its sublicensees) will, for each Trademark material to the

-13-

conduct of such Grantor's business, (i) maintain such Trademark in full force

free from any claim of abandonment or invalidity for non-use, (ii) maintain the quality of products and services offered under such Trademark, (iii) display such Trademark with notice of federal or foreign registration to the extent necessary and sufficient to establish and preserve its maximum rights under applicable law and (iv) not knowingly use or knowingly permit the use of such Trademark in violation of any third party rights.

(c) Each Grantor (either itself or through licensees) will, for each work covered by a material Copyright, continue to publish, reproduce, display, adopt and distribute the work with appropriate copyright notice as necessary and sufficient to establish and preserve its maximum rights under applicable copyright laws.

(d) Each Grantor shall notify the Collateral Agent immediately if it knows or has reason to know that any Patent, Trademark or Copyright material to the conduct of its business may become abandoned, lost or dedicated to the public, or of any adverse determination or development (including the institution of, or any such determination or development in, any proceeding in the United States Patent and Trademark Office, United States Copyright Office or any court or similar office of any country) regarding such Grantor's ownership of any Patent, Trademark or Copyright, its right to register the same, or to keep and maintain the same.

(e) In no event shall any Grantor, either itself or through any agent, employee, licensee or designee, file an application for any Patent, Trademark or Copyright (or for the registration of any Trademark or Copyright) with the United States Patent and Trademark Office, United States Copyright Office or any office or agency in any political subdivision of the United States or in any other country or any political subdivision thereof, unless it promptly informs the Collateral Agent, and, upon request of the Collateral Agent, executes and delivers any and all agreements, instruments, documents and papers as the Collateral Agent may reasonably request to evidence the Collateral Agent's security interest in such Patent, Trademark or Copyright, and each Grantor hereby appoints the Collateral Agent as its attorney-in-fact to execute and file such writings for the foregoing purposes, all acts of such attorney being hereby ratified and confirmed; such power, being coupled with an interest, is irrevocable.

(f) Each Grantor will take all necessary steps that are consistent with the practice in any proceeding before the United States Patent and Trademark Office, United States Copyright Office or any office or agency in any political subdivision of the United States or in any other country or any political subdivision thereof, to maintain and pursue each material

-14-

application relating to the Patents, Trademarks and/or Copyrights (and to obtain the relevant grant or registration) and to maintain each issued Patent and each registration of the Trademarks and Copyrights which is material to the conduct of any Grantor's business, including timely filings of applications for renewal, affidavits of use, affidavits of incontestability and payment of maintenance fees, and, if consistent with good business judgment, to initiate opposition, interference and cancellation proceedings against third parties.

(g) In the event that any Collateral consisting of a Patent, Trademark or Copyright material to the conduct of any Grantor's business is believe infringed, misappropriated or diluted by a third party, such Grantor promptly shall notify the Collateral Agent after it obtains knowledge thereof and shall, if consistent with good business judgment, promptly sue for infringement, misappropriation or dilution and to recover any and all damages for such infringement, misappropriation or dilution, and take such other actions as are appropriate under the circumstances to protect such Collateral.

(h) Upon and during the continuance of an Event of Default, each Grantor shall use its best efforts to obtain all requisite consents or approvals by the licensor of each Copyright License, Patent License or Trademark License to effect the assignment of all the Grantors' right, title and interest thereunder to the Collateral Agent or its designee.

ARTICLE V

COLLECTIONS

SECTION 5.01. Collection Deposit Accounts. (a) At any time that an Event of Default has occurred and is continuing, upon the written request of the Collateral Agent, each Grantor agrees to establish and maintain one or more Collection Deposit Accounts with the Collateral Agent or with any financial institution that is satisfactory to the Collateral Agent and enters into a Lockbox Agreement.

(b) Upon and after the establishment of any Collection Deposit Accounts as provided above, each Grantor shall use all reasonable efforts to prevent any funds which are not payments on Accounts Receivable or Inventory from being deposited into, or otherwise commingled with, the funds held in the Collection Deposit Accounts. Unless and until the Collection Deposit Accounts are converted to closed lockbox accounts pursuant to paragraph (c) below, each Grantor may at any time withdraw any of the funds contained in a Collection Deposit Account of such

-15-

Grantor for use, subject to the provisions of the Loan Documents, for general corporate purposes.

(c) Effective upon notice to the Grantors from the Collateral Agent after the occurrence and during the continuance of an Event of Default (which notice may be given by telephone if promptly confirmed in writing), each Collection Deposit Account will, without any further action on the part of any Grantor, the Collateral Agent or any Sub-Agent, convert into a closed lockbox account under the exclusive dominion and control of the Collateral Agent in which funds are held subject to the rights of the Collateral Agent hereunder. No Grantor shall thereafter have any right or power to withdraw any funds from any Collection Deposit Account without the prior written consent of Collateral Agent until all Events of Default are cured or waived. The Grantors irrevocably authorize the Collateral Agent to notify each Sub-Agent (i) of the occurrence of an Event of Default and (ii) of the matters referred to in this paragraph (c). Following the occurrence of an Event of Default, the Collateral Agent may instruct each Sub-Agent to transfer immediately all funds held in each Collection Deposit Account to an account maintained with the Collateral Agent.

SECTION 5.02. Collections. So long as no Event of Default shall have occurred and be continuing, the Grantors shall have the right to collect all Accounts Receivable and other payments in respect of Inventory in the ordinary course of their businesses; provided, however, that the Grantors agree, if an Event of Default shall occur and be continuing and if the Collateral Agent shall by notice to the Grantors so request (which notice may be given by telephone if promptly confirmed in writing), (i) to arrange for remittances on any Accounts Receivable and Inventory to be made directly to Collection Deposit Accounts established in accordance with Section 5.01, and (ii) promptly to deposit all payments received by the Grantors on account of Accounts Receivable and Inventory, whether in the form of cash, checks, notes, drafts, bills of exchange, money orders or otherwise, in such Collection Deposit Accounts in precisely the form in which received (but with any endorsements of the Grantors necessary for deposit or collection), and until they are so deposited such payments shall be held in trust by the Grantors for and as the property of the Collateral Agent and shall not be commingled with the Grantors' other funds.

SECTION 5.03. Power of Attorney. The Collateral Agent shall have the right, as the true and lawful agent and attorney-in-fact of each of the Grantors, with power of substitution for the Grantors and in each Grantor's name or otherwise, for the use and benefit of the Collateral Agent and the Secured Parties, upon the occurrence and during the continuance of an Event of Default (a) to receive, endorse, assign and/or deliver any and all notes,

-16-

acceptances, checks, drafts, money orders or other evidences of payment relating to the Collateral or any part thereof; (b) to demand, collect, receive payment of, give receipt for and give discharges and releases of all or any of the Collateral; (c) to sign the name of any Grantor on any invoice or bill of lading relating to any of the Collateral; (d) to send verifications of Accounts Receivable to any Account Debtor; (e) to commence and prosecute any and all suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect or otherwise realize on all or any of the Collateral or to enforce any rights in respect of any Collateral; (f) to settle, compromise, compound, adjust or defend any actions, suits or proceedings relating to all or any of the Collateral; (g) to notify, or to require the Grantors to notify, Account Debtors to make payment directly to the Collateral Agent; and (h) to use, sell, assign, transfer, pledge, make any agreement with respect to or otherwise deal with all or any of the Collateral, and to do all other acts and things necessary to carry out the purposes of this Agreement, as fully and completely as though the Collateral Agent were the absolute owner of the Collateral for all purposes; provided, however, that nothing herein contained shall be construed as requiring or obligating the Collateral Agent or any

Secured Party to make any commitment or to make any inquiry as to the nature or sufficiency of any payment received by the Collateral Agent or any Secured Party, or to present or file any claim or notice, or to take any action with respect to the Collateral or any part thereof or the moneys due or to become due in respect thereof or any property covered thereby, and no action taken or omitted to be taken by the Collateral Agent or any Secured Party with respect to the Collateral or any part thereof shall give rise to any defense, counterclaim or offset in favor of any Grantor or to any claim or action against the Collateral Agent or any Secured Party. It is understood and agreed that the appointment of the Collateral Agent as the agent and attorney-in-fact of the Grantors for the purposes set forth above is coupled with an interest and is irrevocable. The provisions of this Section shall in no event relieve any of the Grantors of any of its obligations hereunder or under the Credit Agreement with respect to the Collateral or any part thereof or impose any obligation on the Collateral Agent or any Secured Party to proceed in any particular manner with respect to the Collateral or any part thereof, or in any way limit the exercise by the Collateral Agent or any Secured Party of any other or further right which it may have on the date of this Agreement or hereafter, whether hereunder, under any other Loan Document, by law or otherwise.

-17-

ARTICLE VI

REMEDIES

SECTION 6.01. Remedies upon Default. Upon the occurrence and during the continuance of an Event of Default, each of the Grantors agrees to deliver each item of Collateral to the Collateral Agent on demand, and it is agreed that the Collateral Agent shall have the right (subject to applicable law) to take any of or all the following actions at the same or different times: (a) with respect to any Collateral consisting of Intellectual Property, on demand, to cause the Security Interest to become an assignment, transfer and conveyance of any of or all such Collateral by the applicable Grantors to the Collateral Agent, or to license or, to the extent permitted by applicable law, sublicense, whether general, special or otherwise, and whether on an exclusive or nonexclusive basis, any such Collateral throughout the world on such terms and conditions and in such manner as the Collateral Agent shall determine (other than in violation of any then-existing licensing arrangements to the extent that waivers cannot be obtained), and (b) with or without legal process and with or without previous notice or demand for performance, to take possession of the Collateral and without liability for trespass to enter any premises where the Collateral may be located for the purpose of taking possession of or removing the Collateral and, generally, to exercise any and all rights afforded to a secured party under the Uniform Commercial Code or other applicable law. Without limiting the generality of the foregoing, each of the Grantors agrees that the Collateral Agent shall have the right, subject to the mandatory requirements of current law, to sell or otherwise dispose of all or any part of the Collateral, at public or private sale or at any broker's board or on any securities exchange, for cash, upon credit or for future delivery as the Collateral Agent shall deem appropriate. The Collateral Agent shall be authorized at any such sale (if it deems it advisable to do so) to restrict the prospective bidders or purchasers to persons who will represent and agree that they are purchasing the Collateral for their own account for investment and not with a view to the distribution or sale thereof, and upon consummation of any such sale the Collateral Agent shall have the right to assign, transfer and deliver to the purchaser or purchasers thereof the Collateral so sold. Each such purchaser at any such sale shall hold the property sold absolutely, free from any claim or right on the part of any of the Grantors, and each of the Grantors hereby waives (to the extent permitted by law) all rights of redemption, stay and appraisal which such Grantor now has or may at any time in the future have under any rule of law or statute now existing or hereafter enacted.

-18-

The Collateral Agent shall give the Grantors 10 days' written notice (which each of the Grantors agrees is reasonable notice within the meaning of Section 9-504(3) of the Uniform Commercial Code as in effect in the State of New York or its equivalent in other jurisdictions) of the Collateral Agent's intention to make any sale of Collateral. Such notice, in the case of a public sale, shall state the time and place for such sale and, in the case of a sale at a broker's board or on a securities exchange, shall state the board or exchange

at which such sale is to be made and the day on which the Collateral, or portion thereof, will first be offered for sale at such board or exchange. Any such public sale shall be held at such time or times within ordinary business hours and at such place or places as the Collateral Agent may fix and state in the Notice (if any) of such sale. At any such sale, the Collateral, or portion thereof, to be sold may be sold in one lot as an entirety or in separate parcels, as the Collateral Agent may (in its sole and absolute discretion) determine. The Collateral Agent shall not be obligated to make any sale of any Collateral if it shall determine not to do so, regardless of the fact that notice of sale of such Collateral shall have been given. The Collateral Agent may, without notice or publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for sale, and such sale may, without further notice, be made at the time and place to which the same was so adjourned. In case any sale of all or any part of the Collateral is made on credit or for future delivery, the Collateral so sold may be retained by the Collateral Agent until the sale price is paid by the purchaser or purchasers thereof, but the Collateral Agent shall not incur any liability in case any such purchaser or purchasers shall fail to take up and pay for the Collateral so sold and, in case of any such failure, such Collateral may be sold again upon like notice. At any public sale made pursuant to this Section, any Secured Party may bid for or purchase, free (to the extent permitted by law) from any right of redemption, stay, valuation or appraisal on the part of any of the Grantors (all said rights being also hereby waived and released to the extent permitted by law), the Collateral or any part thereof offered for sale and may make payment on account thereof by using any claim then due and payable to such Secured Party from any of the Grantors as a credit against the purchase price, and such Secured Party may, upon compliance with the terms of sale, hold, retain and dispose of such property without further accountability to any of the Grantors therefor. For purposes hereof, a written agreement to purchase the Collateral or any portion thereof shall be treated as a sale thereof; the Collateral Agent shall be free to carry out such sale pursuant to such agreement and none of the Grantors shall be entitled to the return of the Collateral or any portion thereof subject thereto, notwithstanding the fact that after the Collateral Agent shall have entered into such an agreement all

-19-

Events of Default shall have been remedied and the Obligations paid in full. As an alternative to exercising the power of sale herein conferred upon it, the Collateral Agent may proceed by a suit or suits at law or in equity to foreclose this Agreement and to sell the Collateral or any portion thereof pursuant to a judgment or decree of a court or courts having competent jurisdiction or pursuant to a proceeding by a court-appointed receiver.

SECTION 6.02. Application of Proceeds. The Collateral Agent shall apply the proceeds of any collection or sale of the Collateral, as well as any Collateral consisting of cash, as follows:

FIRST, to the payment of all costs and expenses incurred by the Administrative Agent or the Collateral Agent (in its capacity as such hereunder or under any other Loan Document) in connection with such collection or sale or otherwise in connection with this Agreement or any of the Obligations, including all court costs and the fees and expenses of its agents and legal counsel, the repayment of all advances made by the Collateral Agent hereunder or under any other Loan Document on behalf of any of the Grantors and any other costs or expenses incurred in connection with the exercise of any right or remedy hereunder or under any other Loan Document;

SECOND, to the payment in full of the Obligations (the amounts so applied to be distributed among the Secured Parties pro rata in accordance with the amounts of the Obligations owed to them on the date of any such distribution);

THIRD, to the extent and so long as any Letter or Letters of Credit remain outstanding and entrain, to be held and retained by the Collateral Agent and applied to reimburse the Issuing Bank for any L/C Disbursement thereafter made; and

FOURTH, to the Grantors, their successors or assigns, or as a court of competent jurisdictions may otherwise direct.

The Collateral Agent shall have absolute discretion as to the time of application of any such proceeds, moneys or balances in accordance with this Agreement. Upon any sale of the Collateral by the Collateral Agent (including pursuant to a power of sale granted by statute or under a judicial proceeding), the receipt of the Collateral Agent or of the officer making the sale shall be a sufficient discharge to the purchaser or purchasers of the Collateral so sold and such purchase or purchasers shall not be

obligated to see to the application of any part of the purchase money paid over to the Collateral Agent or such officer or be answerable in anyway for the misapplication thereof.

SECTION 6.03. Grant of License to Use Intellectual Property. For the purpose of enabling the Collateral Agent to exercise rights and remedies under this Article VI at such time as the Collateral Agent shall be lawfully entitled to exercise such rights and remedies, each Grantor hereby grants to the Collateral Agent an irrevocable, nonexclusive license (exercisable without payment of royalty or other compensation to the Grantors) to use, license or sublicense any of the Collateral consisting of Intellectual Property now owned or hereafter acquired by such Grantor, and wherever the same may be located, and including in such license reasonable access to all media in which any of the licensed items may be recorded or stored and to all computer software and programs used for the compilation or printout thereof. The use of such license by the Collateral Agent shall be exercised, at the option of the Collateral Agent, upon the occurrence and during the continuation of an Event of Default; provided that any license, sublicense or other transaction entered into by the Collateral Agent in accordance herewith shall be binding upon the Grantors notwithstanding any subsequent cure of an Event of Default.

ARTICLE VII

MISCELLANEOUS

SECTION 7.01. Notices. All communications and notices hereunder shall (except as otherwise expressly permitted herein) be in writing and given as provided in Section 9.01 of the Credit Agreement. All communications and notices hereunder to any Subsidiary Grantor shall be given to it at its address or telecopy number set forth on Schedule I, with a copy to the Borrower.

SECTION 7.02. Security Interest Absolute. All rights of the Collateral Agent hereunder, the Security Interest and all obligations of the Grantors hereunder shall be absolute and unconditional irrespective of (a) any lack of validity or enforceability of the Credit Agreement or any other Loan Document, any agreement with respect to any of the Obligations or any other agreement or instrument relating to any of the foregoing, (b) any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to any departure from the Credit Agreement, any other Loan Document or any other agreement or instrument, (c) any exchange, release or non-perfection of any Lien on other collateral, or any release or

amendment or waiver of or consent under or departure from any guarantee, securing or guaranteeing all or any of the Obligations, or (d) any other circumstance which might otherwise constitute a defense available to, or a discharge of, any Grantor, in respect of the Obligations or this Agreement.

SECTION 7.03. Survival of Agreement. All covenants, agreements, representations and warranties made by any Grantor herein and in the certificates or other instruments prepared or delivered in connection with or pursuant to this Agreement or any other Loan Document shall be considered to have been relied upon by the Lenders and shall survive the making by the Lenders of the Loans, and the issuance by the Issuing Bank of any Letters of Credit, regardless of any investigation made by the Lenders or on their behalf, and shall continue in full force and effect until this Agreement shall terminate.

SECTION 7.04. Binding Effect; Several Agreement. This Agreement shall become effective as to any Grantor when a counterpart hereof executed on behalf of such Grantor shall have been delivered to the Collateral Agent and a counterpart hereof shall have been executed on behalf of the Collateral Agent, and thereafter shall be binding upon such Grantor and the Collateral Agent and their respective successors and assigns, and shall inure to the benefit of such Grantor, the Collateral Agent and the other Secured Parties and their respective successors and assigns, except that no Grantor shall have the right to assign its rights hereunder or any interest herein or in the Collateral except as expressly contemplated by this Agreement or the Credit Agreement. This Agreement shall be construed as a separate agreement with respect to each Grantor and may be amended, modified, supplemented, waived or released with respect to any

Grantor without the approval of any other Grantor and without affecting the obligations of any other Grantor hereunder.

SECTION 7.05. Successors and Assigns. Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party; and all covenants, promises and agreements by or on behalf of any Grantor or the Collateral Agent that are contained in this Agreement shall bind and inure to the benefit of their respective successors and assigns.

SECTION 7.06. Collateral Agent Appointed Attorney-in-Fact. Each of the Grantors hereby appoints the Collateral Agent the attorney-in-fact of such Grantor for the purpose of carrying out the provisions of this Agreement and taking any action and executing any instrument which the Collateral Agent may deem necessary or advisable to accomplish the purposes hereof, which appointment is irrevocable and coupled with an interest.

-22-

SECTION 7.07. Collateral Agent's Expenses; Indemnification. (a) Each of the Grantors jointly and severally agrees to pay upon demand to the Collateral Agent the amount of any and all reasonable expenses, including the reasonable fees and expenses of its counsel and of any experts or agents, which the Collateral Agent may incur in connection with (i) the administration of this Agreement (including the customary fees of the Collateral Agent for any audits conducted by it with respect to the Accounts Receivable or Inventory), (ii) the custody or preservation of, or the sale of, collection from or other realization upon any of the Collateral, (iii) the exercise, enforcement or protection of any of the rights of the Collateral Agent hereunder or (iv) the failure of the Grantors to perform or observe any of the provisions hereof.

(b) Without limitation of their indemnification obligations under the other Loan Documents, each of the Grantors jointly and severally agrees to indemnify the Collateral Agent and the other Secured Parties against, and hold each of them harmless from, any and all losses, claims, damages, liabilities and related expenses, including reasonable counsel fees and expenses, incurred by or asserted against any of them arising out of, in any way connected with, or as a result of, the execution, delivery or performance of this Agreement or any claim, litigation, investigation or proceeding relating hereto or to the Collateral, whether or not any Secured Party is a party thereto; provided that such indemnity shall not, as to any Secured Party, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or wilful misconduct of such Secured Party.

(c) Any such amounts payable as provided hereunder shall be additional Obligations secured hereby and by the other Security Documents. The provisions of this Section shall remain operative and in full force and effect regardless of the termination of this Agreement, the consummation of the transactions contemplated hereby, the repayment of any of the Loans, the invalidity or unenforceability of any term or provision of this Agreement or any other Loan Document, or any investigation made by or on behalf of the Collateral Agent or any Lender. All amounts due under this Section shall be payable on written demand therefor.

SECTION 7.08. GOVERNING LAW. THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK.

SECTION 7.09. Waivers; Amendment. (a) No failure or delay of the Collateral Agent in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single

-23-

or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Collateral Agent hereunder and of the Collateral Agent, the Administrative Agent and the Lenders under the other Loan Documents are cumulative and are not exclusive of any rights or remedies which they would otherwise have. No waiver of any provisions of this Agreement or consent to any departure by any Grantor therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) below, and then such waiver or consent

shall be effective only in the specific instance and for the purpose for which given. No notice or demand on any Grantor in any case shall entitle such Grantor or any other Grantor to any other or further notice or demand in similar or other circumstances.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Collateral Agent and the Grantor or Grantors with respect to which such waiver, amendment or modification is to apply, with (and subject to) the prior written consent of the Required Lenders or, if the effect of such agreement is to release all or any substantial part of the Collateral other than in accordance with Section 7.15, each Lender.

SECTION 7.10. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS. EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS, AS APPLICABLE, BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

SECTION 7.11. Severability. In the event any one or more of the provisions contained in this Agreement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby. The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

-24-

SECTION 7.12. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one contract (subject to Section 7.04), and shall become effective as provided in Section 7.04.

SECTION 7.13. Headlines. Article and Section headings used herein are for convenience of reference only, are not part of this Agreement and are not to affect the construction of, or to be taken into consideration in interpreting, this Agreement.

SECTION 7.14. Jurisdiction; Consent to Service of Process. (a) Each Grantor hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any New York State court or Federal court of the United States of America sitting in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or the other Loan Documents, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Collateral Agent or any Lender may otherwise have to bring any action or proceeding relating to this Agreement or the other Loan Documents against any Grantor or its properties in the courts of any jurisdiction.

(b) Each Grantor hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or the other Loan Documents in any New York State or Federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(c) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 7.01. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 7.15. Termination. This Agreement and the Security Interest shall terminate when all the Obligations have been indefeasibly paid in full and the Lenders have no further

commitment to extend credit and the Issuing Bank has no further commitment to issue Letters of Credit under the Credit Agreement and all outstanding Letters of Credit have been cancelled (or at such earlier time as such termination occurs pursuant to and in accordance with Section 9.17 of the Credit Agreement), at which time the Collateral Agent shall execute and deliver to the Grantors, at the Grantors' expense, all Uniform Commercial Code termination statements and similar documents which the Grantors shall reasonably request to evidence such termination. Any execution and delivery of termination statements or documents pursuant to this Section 7.15 shall be without recourse to or warranty by the Collateral Agent. Each Subsidiary Grantor shall automatically be released from its obligations hereunder and the Security Interest in the Collateral owned by such Subsidiary Grantor shall be automatically released in the event that all the capital stock of such Subsidiary Grantor shall be sold, transferred or otherwise disposed of to a person that is not an Affiliate of the Borrower in accordance with the terms of the Credit Agreement; provided that the Required lenders shall have consented to such sale, transfer or other disposition and the terms of such consent did not provide otherwise.

SECTION 7.16. Additional Grantors. Upon execution and delivery by the Collateral Agent and a Subsidiary of an instrument in the form of Annex 3 hereto, such Subsidiary shall become a Subsidiary Grantor and Grantor hereunder with the same force and effect as if originally named as a Subsidiary Grantor and Grantor herein. The execution and delivery of any such instrument shall not require the consent of any Grantor hereunder. The rights and obligations of each Grantor hereunder shall remain in full force and effect notwithstanding the addition of any new Grantor as a party to this Agreement.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

ETHAN ALLEN INC.

By /s/ M. Farooq Kathwari
Name: M. Farooq Kathwari
Title: President

ANDOVER WOOD PRODUCTS, INC.

By /s/ M. Farooq Kathwari
Name: M. Farooq Kathwari
Title: President

ETHAN ALLEN MANUFACTURING
CORPORATION

By /s/ M. Farooq Kathwari
Name: M. Farooq Kathwari
Title: President

ETHAN ALLEN FINANCE
CORPORATION

By /s/ M. Farooq Kathwari
Name: M. Farooq Kathwari
Title: President

CHEMICAL BANK, as Collateral
Agent

By /s/ Neil R. Boylan
Name: Neil R. Boylan
Title: Vice President

-27-

SCHEDULE I
to the Security Agreement

SUBSIDIARY GRANTORS

1. Andover Wood Products, Inc.
2. Ethan Allen Manufacturing Corporation
3. Ethan Allen Finance Corporation

SCHEDULE II
to the Security Agreement

SCHEDULE OF U.S. COPYRIGHTS AND COPYRIGHT APPLICATIONS

Copyright	Registration Number	Registration Date
Customer follow-up card system--securing the in-home call	PA-217-001	04/05/84
The Ethan Allen philosophy	PA-217-002	04/05/84
Expanding horizons	PA-217-003	04/05/84
Selling the Ethan Allen way	PA-217-004	04/05/84
Increase your sales, the in- home calls	PA-217-005	04/05/84
How to sell Ethan Allen wood furniture	PA-217-006	04/05/84
Ethan Allen summer sale '83	PA-217-007	04/05/84
How to sell Ethan Allen upholstered furniture	PA-217-008	04/05/84
Presenting the Treasury	PA-217-009	04/05/84
Recruitment and selection: in search of the perfect designer salesperson	PA-217-010	04/05/84
Ethan Allen lighting, value plus	PA-217-011	04/05/84

Winter sales '84	PA-217-012	04/05/84
Basic window treatments	PA-217-013	04/05/84
Ethan Allen floorcovering: broadloom & oriental rugs	PA-225-565	04/05/84
Ethan Allen summer sale '84	PA-228-339	09/12/84
Ethan Allen recliners	PA-228-340	09/12/84
Spring decorating sale '84	PA-228-341	09/12/84
Ethan Allen's spring collections, 1984	PA-234-586	11/08/84
Your first home	PA-234-587	11/08/84
Christmas mailer promotion '84	PA-234-588	11/08/84
Ethan Allen winter sale '85	PA-240-557	01/22/85
Ethan Allen spring sale '85	PA-252-484	04/24/85
The Ethan Allen consumer finance plan	PA-273-941	10/25/85
Ethan Allen broadlooms	TX-1-319-747	04/05/84
Ethan Allen wood furniture construction	TX-1-319-748	04/05/84
Ethan Allen bedspreads	TX-1-319-749	04/05/84
Ethan Allen glossary of furniture terms	TX-1-319-750	04/05/84
Ethan Allen product reference guide: Heirloom	TX-1-319-751	04/05/84
Ethan Allen broadloom: estimating and measuring	TX-1-319-752	04/05/84
American traditional: a comprehensive guide to home decorating the Ethan Allen way	TX-1-505-415	01/31/85
Creating organized analytical coaching habits	TX-523-061	08/07/80

-2-

SCHEDULE III
to the Security Agreement

Name	Location	Date	Marks
Concord House of Lubbock, Inc.	4703 S. Loop 289 Lubbock, TX 79424	1/20/92 5/5/92	1
Wayside Furniture Shops, Inc.	Derby Milford Norwalk Southington	5/20/93	1
Alberta Heirloom House Limited	6707 Elbon Dr. SW Calgary, Alberta, CN	5/4/92	1
Chalmor Furniture	1363 Pleasant Street Fall River, MA 02723	--	1
Hubbards Home Furnishings, Inc.	16 N. Batavia Avenue Batavia, IN	6/12/92	1
3685 Investment Ltd.	25 King Edward Street Coquitlan, B.C.	--/93	1
Montclair Interiors Inc.	5001-5003 Montclair Plaza South Montclair, CA 91763	2/2	2
Fischers Associates Rainbow Corporation	1540 S. Rainbow Blvd. Las Vegas, NV 89119	10/26/94	2
Cooke, Rider, and Fransen C.R.F., Inc.	3220 First Avenue North Billings, MT 59101	10/7/94	2
Feldman Brothers, Incorporated	306-310 West Main Street Salisbury, MA	12/15/94	2
Fredeens Interiors Inc.	19 Stafford Road Nepean, Ontario Canada K2H 8VE	5/12/92	1
R.J. Fischer, Inc.	300 E. Route 59 Nanuet, NY 10954	5/5/93	1
Whippany Manor	245 Route 10 Whippany, NJ 07981	5/5/93	1
Yeager's Carriage House Inc.	Santa Rosa, CA	6/10/92	1
W&B Furniture Inc.	4118 West Market Street Akron, OH 44333	5/5/93	1
Village Carriage House, Inc.	1501 Montgomery Highway Dothan, AL 36303	5/15/92	1
Village Shops Inc.	861 E. El Camino Real Mt. View, CA 94040	6/1/92	1
Valley Manor South Inc.	15053 South Dixie Highway Miami, FL 33176	4/28/92	1
Valley Manor	8750 Tampa Avenue	5/5/92	1

Northridge, CA 91324

Hector Valdizon	1363 South E. Street San Bernardino, CA 92408	6/1/92	1
	2248 Griffin Way Corona, CA	6/1/92	1
United Home Furnishings, Inc.	114 N. 3rd Street Paducah, KY 42001	5/15/92	1
Traditional Interiors, Inc.	633 Northeast Loop 82B Hurst, TX 76053	5/15/92	1
Larry & DBA	Sacramento, CA	5/5/93	1
Tradition House, Inc.	8200 E. Sprague Spokane, WA 99212	5/5/93	1
Thompson's Carriage House, Inc.	4325 S. Padre Island Drive Corpus Christi, TX 78411	1/23/93 (11/11/92)	N/A
Thomas Furniture Co.	815 West S.W. Loop 323 Tyler, TX 75701	8/5/92	1
	200 West Oak Denton, TX 76201		
Stern's Carriage House Inc.	2705 W. Monroe Street Springfield, IL 62704	9/2/92	N/A
TWT, Inc.	875 WSW Loop 323 Tyler, TX 75901	11/11/92	N/A
_____ Carriage House	1111 E. Highway 26 St. Paul, MN	4/27/92	1
Star Furniture	445 N. Rosemead Blvd. Pasadena, CA 91107	7/28/92	1
Stacy's Enterprises, Inc.	16240 U.S. 41 S. Ft. Myers, FL 33908	5/28/92	1
Simon's Home Furnishings, Inc.	3445 Kietzke Lane Reno, NV 89502	5/7/92	1
Shipley's Inc.	1353 Brevard Road Asheville, NC 28806	6/4/92	1
Sherman Furniture Co. Inc.	310 Court St. No. Plymouth, MA	5/29/92	1
Robert J. Scott, Inc.	Colorado Springs, CO	4/27/92	1
Schwartz Furniture	990101 West Main Street	7/22/92	1

-2-

Somerville, NJ 08876

Thomas Ross Inc.	3641 Sycamore Dairy Road Fayetteville, NC	4/28/92	1
Reis Carriage House, Inc.	5621 N. Oracle Road Tucson, AZ 85704	5/5/93	1
R&G Furniture Corp.	Eastview Mall Victor, NY 14564	5/5/93	1
	Greece Towne Mall Rochester, NY 14626	5/5/93	1
	-3-		
Restful Furniture Corp.	456 Montauk Highway Bayshore, NY 11706	4/28/93	1
Sam Y. Phillips & Sons Inc.	Austin, TX Abilene, TX Odessa, TX	5/5/93	1
National Retail Corporation	8955 Beach Boulevard Jacksonville, FL	5/18/92	1
	7666 Blanding Boulevard Jacksonville, FL		
	(Orlando, FL)		
Osborne's Galleries, Inc.	4230 Rosewood Dr. Pleasanton, CA 94588	6/3/92	1
Nassau's	Canton, CT Enfield, CT	5/30/92	1
N&K Furniture Corporation	1069 Montgomery Highway Birmingham, AL 35211	5/6/92	1
Morrison Furniture Inc.	20040 Governors Highway Olympia Fields, IL 60461	5/4/92	1
	Orlando Park, IL		
The Manor House Inc.	5301 North 16th Street Phoenix, AZ 85016	4/27/92	1
Mark Brown & Sons	4545 So. ___ East Salt Lake City, UT 84117	5/4/92	1
Manor House	Richmond, VA	6/29/92	1
Mak Inc.	3309 Hartzdale Dr. Camp Hill, PA 17011	6/1/92	1
McFarlands Carriage House	450 S. Yonge St.	6/23/92	1

-4-

W.L. Landau's Carriage House	River Edge, NJ 07661 Hartsdale, NY	5/5/93	1
Kweller's Georgetown Manor, Inc.	5064 Hamilton Blvd. Allentown, PA 18706	6/1/92	1
Kittle Home Furnishings Center Inc.	8600 Allisonville Road Indianapolis, IN 46250	6/25/92	1
Mirons	1541 Route 22 Watchung, NJ 07060	4/28/92	1
	East Brunswick, NJ	4/28/91	1
Kitslaar's Carriage House Inc.	2350 So. Oneida St. Green Bay, WI 54304	5/5/93	1
Kineads Ethan Allen	5130 Madison Avenue Sacramento, CA 95841	5/5/93	1
Jonsey Inc.	525 Forest Avenue Portland, ME	6/12/92	1
Home Furniture			
Home Furniture & Appliance	121 N. Main Miami, OK	5/5/93	1
Home Environments Inc.	192 Rt 101 West Bedford, NH	4/27/92	1
Heyman's Furniture Co., Inc.	24 East Third Street Williamsport, PA 17701	10/13/92	1
Grand Gallery of Shreveport, Inc.	8824 Youree Drive Shreveport, LA	5/5/93	1
Grand Gallery, Inc.	8560 Florida Blvd. Baton Rouge, LA 70806	6/18/92	1
Gesman's Ethan Allen	4420 Emerson Ave. Barkersburg, WV	5/5/92	N/A

-5-

Helke Furniture Co.	2107 Robin Lane Wausau, WI 51401	5/8/92	1
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Georgetown Manor Inc.	Portland, OR Clackamas, OR	6/1/92	1
Georgetown Manor	1024 N. Fuller St. Santa Ana, CA 92701	6/6/92	1
Garon's Furniture Co. Inc.	8727 Loch Raven Blvd. Baltimore, MD 21286 (3 locations)	8/6/92	1
Fratco Inc.	230 Northern Blvd. Clarks Summit, PA 18411	5/5/93	1
Fowler's Carriage House	305 So. Central Expwy Richardson, TX 75080	5/5/93	1
Fisher's Carriage House	4720 E. State St. Rockford, IL 61108	5/5/93	1
Fischer Corporation	4043 S. Eastern Ave. Las Vegas, NV 89119	5/4/92	1
Ethan Allen	Little Rock, AK Fayetteville, AK	7/2/92	1
Drinnin's Inc.	416 North Rock Road Wichita, KS 67206	6/4/92	1
Doud's Inc.	Main St. Plumville, PA 16246	8/11/92	1
Dekorner Furniture Co.	3450 28th St. SE Grand Rapids, MI 49512	6/12/92	1
Davidsons Furniture Co.	8001 W. Dodge Rd. Omaha, NE 68124	5/5/93	1
	70th & Van Dorn Lincoln, NE 68506	5/5/93	1
E. O. Crawford & Sons, Inc.	472 N. Military Hgwy. Norfolk, VA	7/7/92	1
	3032-1 Richmond Rd. Williamsburg, VA	7/7/92	1
Country Manor	312 E. Main St. Branford, CT 06405	5/5/93	1
Concord House	2191 Central Ave. Schenectady, NY 12304	5/5/93	1
Cohen Furniture Company	1344 East Empire Bloomington, IL 61701	5/5/93	1

Classic Imports, S.A. DE C.V.	1618 Insurgentes St. Mexico City, Mexico	5/5/93	1
Carter Furniture Co.	6767 N. High St. Worthington, OH 43085	5/5/92	1
Carriage Trade Inc.	Eatontown, NJ 07731	1/9/05	1
Carriage House Interiors, Inc.	6200 N. Dale Mabry Tampa, FL 33164	5/3/92	1
	10015 Adamo Drive Tampa, FL 33619	5/3/92	1
Carriage House of Greenville	1184 N. Pleasantburg Dr. Greenville, SC 29607	5/5/93	1
Carriage House Gallery, Inc.	5302 Verona Road Madison, WI 53711	5/20/92	1
Carriage House Inc.	4701 Summer Ave. Memphis, TN	5/12/92	1
	Cordova Center Memphis, TN	5/12/92	1
Carriage House Inc.	7700 Hickman Road Des Moines, IA 50325	4/4/92	1
Carriage House Furniture Shop Inc.	1924 Shelburne Rd Shelburne, VT 05482	5/4/92	1
-7-			
Carriage House Furniture Inc.	12618 Interurban Ave. S. Tukwila, WA 98168 (3 locations)	6/8/92	1
Carriage House Furniture Inc.	9801 Linn Station Road Louisville, KY	10/20/92	1
Carriage House of Columbus Inc.	3939 Macon Rd. Columbus, GA 31907	6/3/92	1
Carriage House	117 W. Shepard Lufkin, TX 75701	11/11/92	N/A
Carriage House	10001 Kingston Pike Knoxville, TN 37922	8/13/92	1
Carriage House	10720 Pacific Street Omaha, NE 68114	5/5/92	2
Cabot House	Saugus, MA Phalstow, NH	11/9/92	1
Burgess Carriage House	Pinellas Park, FL	10/14/92	1

Port Richey, FL
Lakeland, FL
Sarasota, FL

Brough Corp.	3011 E. Shields Fresno, CA 93726	4/28/92	1
Brenners Furn. Co., Inc.	210 N. Plank Road Newburg, NY 12550	5/12/92	1
Claypool's Ethan Allen	2330 I-H 30 Mesquite, TX 75150	5/5/92	1
Stanley F. Company	111-115 N. Mechanic Street Carthage, NY 13619	/ /92	1
Bly & Sons, Inc.	455 Salem Place Fairview Heights, IL 62208	6/20/92	1
Wm M. Bloomfield Inc.	2500 Fontaine Road San Jose, CA (2 Locations)	5/4/92	1

-8-

Blair House of Trevoise, Inc.	4625 Street Road Trevoise, PA 19053	5/5/93	1
Blair House Inc.	2470 Brunswick Pike Lawrenceville, NJ 08648	/ /92	1
Blair House of Pa. Inc.	668 Bethlehem Pike Montgomeryville, PA 18936	/ /92	1
Blair House of Cherry Hill, Inc.	261 Route 38 Maple Shade, NJ 08052	/ /92	1
Benner's Carriage House Inc.	2138 North Josey Lane Carrollton, TX 75006	5/5/93 5/24/94	1 2
B&R Furniture	Dewey Ave. & E. Genese Stre DeWitt, NY 13066	6/1/92	1
Arlo Enterprises	Concord, CA	5/5/93	1
Americana Furniture Barn Inc.	703 Long Hill Road Groton, CT 06505	5/13/93	1
Adams Furniture Inc.	613 West Lake Avenue Peoria, IL 61614	5/16/92	1
Abbey Coordinated Interiors	3875 Sheridan Drive Amherst, NY 14226	5/5/93	1
Carriage House Interiors Inc.	6 Locations - Colorado & Corporation	5/5/93	1
Kwellers' Manor House	4118 Electric Road	12/18/92	1

Roanoke, VA 24014

Bragg's Ethan Allen	3017 South Parkway Huntsville, AL 35801	8/10/92	1
Carriage House, Inc.	5221 U.S. Route 60 East Huntington, WV 25705	5/5/93	1
Georgetown Interiors Inc.	12504 Candelaria Road, NE Albuquerque, NM 87112	5/5/93	1
-9-			
Mared Furniture Inc.	McMurray, PA Monroeville, PA Wexford, PA	11/23/93	2
Andover Interiors Inc.	419 Andover Street North Andover, MA 08145	7/7/94	N/A
Salvesen's Furniture Galleries	1607 Mesquite Avenue Lake Havasu City, AZ 86403	9/12/94	2
The Myers Corporation	Route 132 Hyannis, MA 02601	9/12/94	2
Kalo Ltd.	2300 West 49th Street Sioux Falls, SD	7/14/94	2
Thomas & Kline Inc.	6755 West Central Sylvania, OH 43560	7/6/94	2
AJ Gallery of Boise Inc.	400 North Cole Road Boise, ID 83706	8/19/94	2
Servco Distributing Inc.	4081-R Westheimer Houston, TX 77027	6/1/94	N/A
Canterbury House	Holiday Mall Moorhead, MN 56560	9/15/92	N/A
Albert M. Churilla Inc.	1775 Band Hill Road Warwick, RI 02886 (Amendment Only)	9/25/93	N/A
Schultz Furniture Inc.	411 West Yakima Yakima, WA 98902	10/4/92	N/A

Notes

- 1 = Servicemarks include "Ethan Allen", EA Logo & Design SM.
- 2 = Covers same marks as in Note 1 plus Ethan Allen Trade Name.
- 3 = Above is subject to review for updating. May also need to include; Japan, Jordan, Korea, Saudi Arabia.

SCHEDULE IV
to the Security Agreement

SCHEDULE OF U.S. PATENTS AND PATENT APPLICATIONS

I. PATENTS

Inventor(s)	Title	Serial Number	Filing Date
	Store Front	346,451	04/26/94
	Store Front	349,413	08/09/94
	Arm Chair	340,197	08/02/94
	Curio China	343,743	02/01/94
	Bed	336,797	06/29/93
	Div. of 005	345,264	03/22/94
Irving Sabo	Furniture Knob	5,255,413	10/26/94
	Store Front II	346,664	05/03/94

II. DESIGN PATENT APPLICATIONS

Inventor(s)	Title	Serial Number	Filing Date
Joel Brand	Store Front II	000,495	10/15/92
Philip Stone et	Side Chair	877,018	05/01/92
Philip Stone et	Arm.Chair	877,019	05/01/92
Philip Stone et	Bed.	877,020	05/01/92
Philip Stone et	Curio China	882,629	05/13/92
Joel Brand	Store Front	892,512	06/01/92
	Div. of 001	18,596	02/10/94
	Accent Chair	32,400	12/19/94
	Poster Bed	32,407	12/19/93
	Sofa/Cons. Table	32,406	12/19/93
	Ell. Coffee Table	32,405	12/19/94
	Disp. Coffee Table	32,404	12/19/94
	Curio Cabinet	32,403	12/19/94
	Entertainment Unit	32,402	12/19/94
	Armoire	32,401	12/19/94

III. UTILITY PATENT APPLICATIONS

None.

SCHEDULE V
to the Security Agreement

U.S. TRADEMARKS AND TRADEMARK APPLICATIONS

I. Schedule of U.S. Trademark Registrations

Trademark	Registration Number	Registration Date
Ethan Allen (Script Form)	381,746	10/01/40
Ethan Allen	697,295	05/10/60
Ethan Allen	737,146	09/04/62
Kling	851,020	06/18/68
Ethan Allen	903,549	12/01/70
Ethan Allen	903,855	12/08/70
Ethan Allen	904,124	12/15/70
Ethan Allen	905,053	12/29/70
Ethan Allen	906,171	01/19/71
Ethan Allen	907,552	02/09/71
Ethan Allen	907,567	02/10/71
Ethan Allen	910,034	03/16/71
Ethan Allen	911,916	06/08/71
Ethan Allen	922,385	10/19/71
Ethan Allen	929,420	02/22/72
Ethan Allen	930,136	02/28/72
Ethan Allen	942,357	03/05/72
Ethan Allen	972,404	11/06/73
Ethan Allen	998,857	11/19/74
Knob Creek	1,000,742	12/31/74
Ethan Allen	1,003,506	01/28/75
Ethan Allen	1,003,584	01/28/75
Ethan Allen	1,003,604	01/28/75
Ethan Allen	1,003,617	01/28/75

Ethan Allen	1,003,605	01/28/75
Ethan Allen Inn (Script Form)	1,012,476	06/03/75
Ethan Allen	1,127,735	12/11/79
Ethan Allen in Colonial House	1,247,706	08/09/83

Knob Creek and Design	1,337,963	05/28/85
We Care About Your Home	1,510,514	10/25/88
Newport Cherry	1,524,041	02/07/89
Ethan Allen In Colonial House	1,688,646	05/26/92
Ethan Allen	1,741,943	12/22/92
American Expressions	1,801,558	10/26/93
EA	1,801,318	10/20/93
Ethan Allen	1,741,943	12/22/92
Ethan Allen & Store Design #4	1,837,311	05/17/94

II. Schedule of U.S. Trademark Applications

Trademark	Registration Number	Registration Date
Ethan Allen & Store Design #2	270,416	04/28/92
Ethan Allen & Store Design #1	272,475	04/28/92
Ethan Allen & Store Design #3	324,577	00/21/92
Ethan Allen in Colonial House	622,456	08/09/83

-3-

III. Schedule of Trade, Fictitious and Other Names

Trade Names	Used By:	Jurisdictions
Ethan Allen	Ethan Allen Inc.	Connecticut and in each other state where Ethan Allen Inc. is qualified to do business.
Ethan Allen Gallery	Ethan Allen Inc.	
Ethan Allen Home Interiors	Ethan Allen Inc.	

SECURITY AGREEMENT dated as of March 10, 1995, among ETHAN ALLEN INC., a Delaware corporation (the "Borrower"); the subsidiaries of the Borrower listed on Schedule I hereto (collectively, the "Subsidiary Grantors"; the Borrower and the Subsidiary Grantors being collectively called the "Grantors"); and CHEMICAL BANK, a New York banking corporation, as collateral agent (in such capacity, the "Collateral Agent") for the Secured Parties, as defined herein.

Reference is made to the Credit Agreement dated as of March 10, 1995 (as amended or modified from time to time, the "Credit Agreement"), among the Borrower, Ethan Allen Interiors Inc. ("Holdings"), the financial institutions party thereto, as lenders (the "Lenders") and Chemical Bank, as administrative agent (in such capacity, the "Administrative Agent").

The Lenders have agreed to extend credit to, and the Issuing Bank has agreed to issue Letters of Credit for the account of, the Borrower pursuant to, and subject to the terms and conditions specified in, the Credit Agreement. Each of Holdings and the Subsidiary Grantors has agreed to guarantee, among other things, all the obligations of the Borrower under the Credit Agreement. The obligations of the Lenders to extend credit and of the Issuing Bank to issue Letters of Credit under the Credit Agreement are conditioned upon, among other things, the execution and delivery by the Grantors of a security agreement in the form hereof to secure (a) the due and punctual payment by the Borrower of (i) the principal of and interest on the Loans, when and as due, whether at maturity, by acceleration, upon one or more dates set for prepayment or otherwise, (ii) each payment required to be made by the Borrower under the Credit Agreement in respect of any Letter or Letters of Credit, when and as due, including payments in respect of reimbursement of disbursements, interest thereon and obligations to provide cash collateral and (iii) all other monetary obligations of the Borrower to the Secured Parties under the Credit Agreement and the other Loan Documents to which the Borrower is or is to be a party, (b) the due and punctual performance of all other obligations of the Borrower under the Credit Agreement and the other Loan Documents to which the Borrower is or is to be a party, (c) the due and punctual payment and performance of all obligations of the Borrower under each Rate Protection Agreement entered into with any counterparty that was a Lender at the time such Rate Protection Agreement was entered into and (d) the due and punctual payment and performance

of all obligations of each of Holdings and the Subsidiary Grantors under the Loan Documents to which it is or is to be a party (all of the foregoing obligations being collectively called the "Obligations").

Accordingly, the Grantors and the Collateral Agent hereby agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.01. Terms Defined in the Credit Agreement. Terms used herein and not otherwise defined herein shall have the meanings set forth in the Credit Agreement.

SECTION 1.02. Definitions of Certain Terms Used Herein. As used herein, the following terms shall have the following meanings:

"Account Debtor" shall mean any person who is or who may become obligated to a Grantor under, with respect to or on account of an Account.

"Accounts" shall mean any and all rights of any Grantor to payment for goods or services sold or leased, including any such right evidenced by chattel paper, whether due or to become due, whether or not earned by performance and

whether now existing or arising in the future, including accounts receivable from Affiliates of the Grantors, but excluding Dealer Notes.

"Accounts Receivable" shall mean all Accounts and all rights in any returned goods, together with all rights, titles, securities and guarantees with respect thereto, including any rights to stoppage in transit, replevin, reclamation and resales, and all related security interests, liens and pledges, whether voluntary or involuntary.

"Collateral" shall mean (i) Accounts Receivable, (ii) Documents, (iii) General Intangibles, (iv) Intercompany Claims, (v) Inventory, (vi) Proceeds and (vii) Collection Deposit Accounts; provided that Excluded Assets shall not constitute Collateral.

"Collection Deposit Account" shall mean a lockbox account of a Grantor maintained for the benefit of the Secured Parties with the Collateral Agent pursuant to Article V or with a Sub-Agent pursuant to a Lockbox Agreement.

-2-

"Copyright License" shall mean any written agreement, now or hereafter in effect, granting any right to any third party under any Copyright now or hereafter owned by any Grantor or which such Grantor otherwise has the right to license, or granting any right to such Grantor under any Copyright now or hereafter owned by any third party, and all rights of such Grantor under any such agreement.

"Copyrights" shall mean all of the following now owned or hereafter acquired by any Grantor: (i) all copyright rights in any work subject to the copyright laws of the United States or any other country, whether as author, assignee, transferee or otherwise, and (ii) all registrations and applications for registration of any such copyright in the United States or any other country, including registrations, recordings, supplemental registrations and pending applications for registration in the United States Copyright Office, including those listed on Schedule II.

"Credit Agreement" shall have the meaning assigned to such term in the preliminary statement of this Agreement.

"Documents" shall mean all instruments, files, records, ledger sheets and documents covering or relating to any of the Collateral.

"Excluded Assets" shall mean fixtures, equipment, motor vehicles, any other tangible personal property (except Inventory), Dealer Notes and rights (whether as lessor or lessee) under leases.

"General Intangibles" shall mean all choses in action and causes of action and all other assignable intangible personal property of any Grantor of every kind and nature (other than Accounts Receivable) now owned or hereafter acquired by any Grantor, including corporate or other business records, contract rights (including rights under Rate Protection Agreements and other agreements, but excluding rights under leases, whether entered into as lessor or lessee), Intellectual Property, goodwill, registrations, franchises, tax refund claims and any letter of credit, guarantee, claim, security interest or other security held by or granted to any Grantor to secure payment by an account debtor of any of the Accounts Receivable.

"Intellectual Property" shall mean all intellectual and similar property of any Grantor of every kind and nature now owned or hereafter acquired by any Grantor, including inventions, designs, Patents, Copyrights, Licenses, Trademarks, trade secrets, confidential or proprietary technical and business information, know-how, show-how or other data or information, software and databases and all embodiments or fixations thereof

-3-

and related documentation, registrations and franchises, and all additions, improvements and accessions to, and books and records describing or used in connection with, any of the foregoing.

"Intercompany Claims" shall mean any and all rights of any Grantor in respect of loans, advances or other claims owed to such Grantor by any of Holdings, the Borrower or any Subsidiary, other than Accounts and other than

loans, advances or other claims evidenced by an instrument pledged pursuant to the Pledge Agreement.

"Inventory" shall mean all goods of a Grantor, whether now owned or hereafter acquired, held for sale or lease, or furnished or to be furnished by a Grantor under contracts of service, or consumed in a Grantor's business, including raw materials, intermediates, work in progress, packaging materials, finished goods, semi-finished inventory, scrap inventory, manufacturing supplies and spare parts, and all such goods that have been returned to or repossessed by or on behalf of any Grantor.

"License" shall mean any Patent License, Trademark License, Copyright License or other license or sublicense to which any Grantor is a party, including those listed on Schedule III (other than those license agreements in existence as of the date hereof and listed on Schedule III and those license agreements entered into after the date hereof, which by their terms prohibit assignment or a grant of a security interest by such Grantor as licensee thereunder).

"Lockbox Agreement" shall mean a Lockbox Agreement substantially in the form of Annex 1 hereto among a Grantor, the Collateral Agent and a Sub-Agent.

"Obligations" shall have the meaning assigned to such term in the preliminary statement of this Agreement.

"Patent License" shall mean any written agreement, now or hereafter in effect, granting to any third party any right to make, use or sell any inventory on which a Patent, now or hereafter owned by any Grantor or which such Grantor otherwise has the right to license, is in existence, or granting to such Grantor any right to make, use or sell any invention on which a Patent, now or hereafter owned by any third party, is in existence, and all rights of such Grantor under any such agreement.

"Patents" shall mean all of the following now owned or hereafter acquired by any Grantor: (i) all letters Patent of the United States or any other country, all registrations and recordings thereof, and all applications for letters Patent of the United States or any other country, including registrations,

-4-

recordings and pending applications in the United States Patent and Trademark Office or any similar offices in any other country, including those listed on Schedule IV, and (ii) all reissues, continuations, divisions, continuations-in-part, renewals or extensions thereof, and the inventions disclosed or claims therein, including the right to make, use and/or sell the inventions disclosed or claimed therein.

"Perfection Certificate" means a certificate substantially in the form of Annex 2 hereto, completed and supplemented with the schedules and attachments contemplated thereby, and duly executed by a Financial Officer and the chief legal officer of the Borrower.

"Proceeds" shall mean any consideration received from the sale, exchange, license, lease or other disposition of any asset or property which constitutes Collateral, any value received as a consequence of the possession of any Collateral and any payment received from any insurer or other person or entity as a result of the destruction, loss, theft, damage or other involuntary conversion of whatever nature of any asset or property which constitutes Collateral, and shall include (a) all cash and negotiable instruments received or held on behalf of the Collateral Agent pursuant to the Lockbox Agreements or any other lockbox or similar arrangement relating to the payment of Accounts Receivable and Inventory and (b) any claim of any Grantor against any third party for (and the right to sue and recover for and the rights to damages or profits due or accrued arising out of or in connection with) (i) past, present or future infringement of any Patent now or hereafter owned by any Grantor or licensed under a Patent License, (ii) past, present or future infringement or dilution of any Trademark now or hereafter owned by any Grantor or licensed under a Trademark License or injury to the goodwill associated with or symbolized by any Trademark now or hereafter owned by any Grantor, (iii) past, present or future breach of any License, (iv) past, present or future infringement of any Copyright now or hereafter owned by any Grantor or licensed under a Copyright License, and (v) any and all other amounts from time to time paid or payable under or in connection with any of the Collateral.

"Secured Parties" shall mean (a) the Lenders party to the Credit Agreement, (b) each counterparty to a Rate Protection Agreement entered into with the Borrower, if such counterparty was a Lender at the time such Rate Protection Agreement was entered into, (c) the Administrative Agent, the Collateral Agent and the Issuing Bank, in their capacities as such under each

Loan Document, (d) the beneficiaries of each indemnification obligation undertaken by any Grantor under any Loan Document, and (e) the successors and assigns of the foregoing.

-5-

"Security Interest" shall have the meaning assigned to such term in Section 2.01.

"Sub-Agent" shall mean a financial institution which shall have delivered to the Collateral Agent an executed Lockbox Agreement.

"Trademark License" shall mean any written instrument, now or hereafter in effect, granting to any third party any right to use any Trademark now or hereafter owned by any Grantor or which such Grantor otherwise has the right to license, or granting to such Grantor any right to use any Trademark now or hereafter owned by any third party, and all rights of such Grantor under any such agreement.

"Trademarks" shall mean all of the following now owned or hereafter acquired by any Grantor: (i) all trademarks, service marks, trade names, corporate names, company names, business names, fictitious business names, trade styles, trade dress, logos, other source or business identifiers, designs and general intangibles of like nature, now existing or hereafter adopted or acquired, all registrations and recordings thereof, and all registration and recording applications filed in connection therewith, including registrations and registration applications in the United States Patent and Trademark Office, any State of the United States or any similar offices in any other country or any political subdivision thereof, and all extensions or renewals thereof, including those listed on Schedule V, (ii) all goodwill associated therewith or symbolized thereby, and (iii) all other assets, rights and interests that uniquely reflect or embody such goodwill.

SECTION 1.03. Rules of Interpretation. The rules of interpretation specified in Section 1.02 of the Credit Agreement shall be applicable to this Agreement.

ARTICLE II

SECURITY INTEREST

SECTION 2.01. Security Interest. As security for the payment or performance, as the case may be, of the Obligations, each Grantor hereby bargains, sells, conveys, assigns, sets over, mortgages, pledges, hypothecates and transfers to the Collateral Agent, its successors and its assigns, for the benefit of the Secured Parties, and hereby grants to the Collateral Agent, its successors and assigns, for the benefit of the Secured Parties, a security interest in, all of such Grantor's right, title and interest in, to and under the Collateral (the "Security Interest"). Without limiting the foregoing, the Collateral Agent

-6-

is hereby authorized to file one or more financing statements, continuation statements, filings with the United States Patent and Trademark Office or United States Copyright Office (or any successor office or any similar office in any other country) or other documents for the purpose of perfecting, confirming, continuing, enforcing or protecting the Security Interest granted by each Grantor, without the signature of any Grantor, naming any Grantor or the Grantors as debtors and the Collateral Agent as secured party.

The Grantors agree at all times to keep accurate and complete accounting records with respect to the Collateral, including a record of all payments and Proceeds received.

SECTION 2.02. No Assumption of Liability. The Security Interest is granted as security only and shall not subject the Collateral Agent or any Secured Party to, or in any way alter or modify, any obligation or liability of any Grantor with respect to or arising out of any of the Collateral.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

The Grantors jointly and severally represent and warrant to the Collateral Agent and the Lenders that:

SECTION 3.01. Title and Authority. Each of the Grantors has good and valid rights in and title to the Collateral with respect to which it has purported to grant a Security Interest hereunder and has full power and authority to grant to the Collateral Agent the Security Interest in such Collateral pursuant hereto and to execute, deliver and perform its obligations in accordance with the terms of this Agreement, without the consent or approval of any other person other than any consent or approval which has been obtained.

SECTION 3.02. Filings. (a) The Perfection Certificate has been duly prepared, completed and executed and the information set forth therein is correct and complete. Fully executed Uniform Commercial Code financing statements or other appropriate filings, recordings or registrations containing a description of the Collateral have been delivered to the Collateral Agent for filing in each governmental, municipal or other office specified in Schedule 6 to the Perfection Certificate, which are all the filings, recordings and registrations (other than filings required to be made in the United States Patent and Trademark Office and the United States Copyright Office in order to perfect the Security Interest in Collateral consisting of United States Patents, registered trademarks and registered copyrights) that

-7-

are necessary to publish notice of and protect the validity of and to establish a legal, valid and perfected security interest in favor of the Collateral Agent (for the benefit of the Secured Parties) in respect of all Collateral in which the Security Interest may be perfected by filing, recording or registration in the United States (or any political subdivision thereof) and its territories and possessions, and no further or subsequent filing, refiling, recording, rerecording, registration or reregistration is necessary in any such jurisdiction, except as provided under applicable law with respect to the filing of continuation statements.

(b) Each Grantor shall ensure and warrants that fully executed security agreements in the form hereof and containing a description of all Collateral consisting of Intellectual Property shall have been received and recorded within three months after the execution of this Agreement with respect to United States Patents and United States registered Trademarks (and Trademarks for which United States registration applications are pending) and within three months after the execution of this Agreement with respect to United States registered Copyrights by the United States Patent and Trademark Office and the United States Copyright Office pursuant to 35 U.S.C. ss. 261, 15 U.S.C. ss. 1060 or 17 U.S.C. ss. 205 and the regulations thereunder, as applicable, and otherwise as may be required pursuant to the laws of any jurisdiction outside the United States where any Trademarks, Copyrights or Patents are registered (a "Foreign Registration Jurisdiction") to protect the validity of and to establish a legal, valid and perfected security interest in favor of the Collateral Agent (for the benefit of the Secured Parties) in respect of all Collateral consisting of Patents, Trademarks and Copyrights in which a security interest may be perfected by filing, recording or registration in the United States (or any political subdivision thereof) and its territories and possessions or in any Foreign Registration Jurisdiction and no further or subsequent filing, refiling, recording, rerecording, registration or reregistration is necessary (other than such actions as are necessary to perfect the Security Interest with respect to any Collateral consisting of Patents, Trademarks and Copyrights (or registration or application for registration thereof) acquired or developed after the date hereof).

SECTION 3.03. Validity of Security Interest. The Security Interest constitutes (a) a legal and valid security interest in all the Collateral securing the payment and performance of the Obligations, (b) subject to the filings described in Section 3.02 above, a perfected security interest in all Collateral in which a security interest may be perfected by filing, recording or registering a financing statement or analogous document in the United States (or any political subdivision thereof) and its territories and possessions pursuant to the Uniform Commercial

-8-

Code or other applicable law in such jurisdictions or in any Foreign Registration Jurisdiction and (c) a security interest that shall be perfected in

all Collateral in which a security interest may be perfected upon the receipt and recording of this Agreement with the United States Patent and Trademark Office and the United States Copyright Office, as applicable, within the three-month period (commencing as of the date hereof) pursuant to 35 U.S.C. ss. 261 or 15 U.S.C. ss. 1060 or the three-month period (commencing as of the date hereof) pursuant to 17 U.S.C. ss. 205 and otherwise as may be required pursuant to the laws of any Foreign Registration Jurisdiction. The Security Interest is and shall be prior to any other Lien on any of the Collateral.

SECTION 3.04. Absence of Other Liens. The Collateral is owned by the Grantors free and clear of any Lien, except for Liens expressly permitted by the Credit Agreement. Other than as contemplated hereby and except for filings expressly permitted by the Credit Agreement, none of the Grantors has filed or consented to the filing of (a) any financing statement or analogous document under the Uniform Commercial Code or any other applicable laws covering any Collateral, (b) any assignment in which any Grantor assigns any Collateral or any security agreement or similar instrument covering any Collateral with the United States Patent and Trademark Office or the United States Copyright Office or (c) any assignment in which any Grantor assigns any Collateral or any security agreement or similar instrument covering any Collateral with any foreign governmental, municipal or other office.

SECTION 3.05. Intellectual Property. Schedules II, III, IV and V hereto set forth accurate and complete descriptions of all Copyrights, Licenses, Patents and Trademarks of each Grantor.

ARTICLE IV

COVENANTS

SECTION 4.01. Change of Name; Location of Collateral; Records; Place of Business. (a) Each of the Grantors agrees promptly to notify the Collateral Agent of any change (i) in its corporate name or in any trade name used to identify it in the conduct of its business or in the ownership of its properties, (ii) in the location of its chief executive office, its principal place of business, any office in which it maintains books or records relating to Collateral owned by it or any office or facility at which Collateral owned by it is located (including the establishment of any such new office or facility) or (iii) in its identity or corporate structure. Each of the Grantors agrees not to effect or permit any change referred to in the preceding sentence unless all filings have been made under the Uniform

-9-

Commercial Code or otherwise which are required in order for the Collateral Agent to continue at all times following such change to have a valid, legal and perfected security interest in all the Collateral. Each of the Grantors agrees promptly to notify the Collateral Agent if any material portion of the Collateral is damaged or destroyed.

(b) Each of the Grantors agrees to maintain complete and accurate records with respect to the Collateral owned by it and, at such time or times as the Collateral Agent may request, promptly to prepare and deliver to the Collateral Agent a duly certified schedule or schedules in form and detail satisfactory to the Collateral Agent showing the identity, amount and location of any and all Collateral.

SECTION 4.02. Post-Closing Certification. Within three months after the Closing Date, the Borrower shall deliver to the Collateral Agent a certificate executed by a Financial Officer and the chief legal officer of the Borrower setting forth, with respect to each filing, recording or registration contemplated by Section 3.02(b), the filing office, date and file number thereof and attaching true, correct and complete acknowledgement copies of each such filing, recording or registration.

SECTION 4.03. Protection of Security. Each of the Grantors shall, at its own cost and expense, take any and all actions necessary to defend title to the Collateral against all persons and to defend the Security Interest of the Collateral Agent in the Collateral and the priority thereof against any Liens not expressly permitted under the Credit Agreement.

SECTION 4.04. Further Assurances. Each of the Grantors agrees, at its expense, to execute, acknowledge, deliver and cause to be duly filed all such further instruments and documents and take all such actions as the Collateral Agent may from time to time reasonably request to better assure, preserve, protect and perfect the Security Interest and the rights and remedies created hereby, including the payment of any fees and taxes required in connection with the execution and delivery of this Agreement, the granting of the Security Interest and the filing of any financing statements or other documents in

connection herewith. If any amount payable under or in connection with any of the Collateral shall be or become evidenced by any promissory note or other instrument, such note or instrument shall be immediately pledged and delivered to the Collateral Agent, duly endorsed in a manner satisfactory to the Collateral Agent.

Without limiting the generality of the foregoing, each Grantor hereby authorizes the Collateral Agent, with prompt notice thereof to the Grantors, to supplement this Agreement by supplementing Schedule II, III, IV or V hereto or adding

-10-

additional schedules hereto to specifically identify any asset or item that may constitute Copyrights, Licenses, Patents or Trademarks; provided, however, that any Grantor shall have the right, exercisable within 10 days after it has been notified by the Collateral Agent of the specific identification of such Collateral, to advise the Collateral Agent in writing of any inaccuracy of the representations and warranties made by such Grantor hereunder with respect to such Collateral. Each Grantor agrees that it will use its best efforts to take such action as shall be necessary in order that all representations and warranties hereunder shall be true and correct with respect to such Collateral within 30 days after the date it has been notified by the Collateral Agent of the specific identification of such Collateral.

SECTION 4.05. Intercompany Claims. If at any time any Intercompany Claim is evidenced by any promissory note or other instrument, the applicable Grantor shall promptly pledge such note or other instrument pursuant to the Pledge Agreement.

SECTION 4.06. Taxes; Encumbrances. At its option, the Collateral Agent may discharge past due taxes, assessments, charges, fees, liens, security interests or other encumbrances at any time levied or placed on the Collateral and not permitted under the Credit Agreement, and may pay for the maintenance and preservation of the Collateral to the extent any of the Grantors fails to do so as required by the Credit Agreement or this Agreement, and each of the Grantors jointly and severally agrees to reimburse the Collateral Agent on demand for any payment made or any expense incurred by the Collateral Agent pursuant to the foregoing authorization; provided, however, that nothing in this Section shall be interpreted as excusing any Grantor from the performance of, or imposing any obligation on the Collateral Agent or any Secured Party to cure or perform, any covenants or other promises of any Grantor with respect to taxes, assessments, charges, fees, liens, security interests or other encumbrances and maintenance as set forth herein or in the Credit Agreement.

SECTION 4.07. Assignment of Security Interest. If at any time any of the Grantors shall take and perfect a security interest in any property of an Account Debtor or any other person to secure payment and performance of an Account, such Grantor shall promptly assign such security interest to the Collateral Agent. Such assignment need not be filed of public record unless necessary to continue the perfected status of the security interest against creditors of and transferees from the Account Debtor or other person granting the security interest.

SECTION 4.08. Continuing Obligations of the Grantors. Each of the Grantors shall remain liable to observe and perform all the conditions and obligations to be observed and performed by it

-11-

under each contract, agreement or instrument relating to the Collateral, all in accordance with the terms and conditions thereof, and the Grantors jointly and severally agree to indemnify and hold harmless the Collateral Agent and the Secured Parties from and against any and all liability for such performance.

SECTION 4.09. Use and Disposition of Collateral. None of the Grantors shall make or permit to be made an assignment, pledge or hypothecation of the Collateral or shall grant any other Lien in respect of the Collateral except as expressly permitted by the Credit Agreement. None of the Grantors shall make or permit to be made any transfer of the Collateral and each Grantor shall remain at all times in possession of the Collateral owned by it, except that (a) Inventory may be sold in the ordinary course of business and (b) unless and until the Collateral Agent shall notify the Grantors that an Event of Default shall have occurred and be continuing and that during the continuance thereof the Grantors shall not sell, convey, lease, assign, transfer or otherwise

dispose of any Collateral (which notice may be given by telephone if promptly confirmed in writing), the Grantors may use and dispose of the Collateral in any lawful manner not inconsistent with the provisions of this Agreement, the Credit Agreement or any other Loan Document. Without limiting the generality of the foregoing, each Grantor agrees that (i) it shall not permit any Inventory to be in the possession or control of any warehouseman, bailee, agent or processor at any time unless such possession or control will not effect the perfection and priority of the Security Interest in such Inventory or arrangements are made so that such perfection and priority will not be affected and (ii) if any warehouse receipt (or other receipt in the nature of a warehouse receipt) is issued with respect to any Inventory, such receipt shall be delivered to the Collateral Agent.

SECTION 4.10. Limitation on Modification of Accounts. None of the Grantors will, without the Collateral Agent's prior written consent, grant any extension of the time of payment of any of the Accounts Receivable, compromise, compound or settle the same for less than the full amount thereof, release, wholly or partly, any person liable for the payment thereof or allow any credit or discount whatsoever thereon, other than extensions, credits, discounts, compromises or settlements granted or made in the ordinary course of business or otherwise in accordance with prudent and reasonable business practices.

SECTION 4.11. Insurance. (a) The Borrower, at its own expense, shall maintain or cause to be maintained insurance covering physical loss or damage to the Inventory in accordance with the provisions of the Credit Agreement. All such policies of insurance shall be endorsed or otherwise amended to include a

-12-

lender's loss payable endorsement, in form and substance satisfactory to the Collateral Agent, which shall provide that from and after the date, if any, on which the insurance carrier receives written notice from the Collateral Agent that an Event of Default has occurred, all proceeds otherwise payable to the Borrower or any other Grantor under such policies shall be payable directly to the Collateral Agent. Such endorsement or an independent instrument furnished to the Collateral Agent shall provide that the insurance carriers will give the Collateral Agent at least 30 days' prior written notice before any such policy or policies of insurance shall be altered or canceled and that no act or default of any Grantor or any other person shall affect the right of the Collateral Agent to recover under such policy or policies of insurance in case of loss or damage.

(b) Each Grantor irremovably makes, constitutes and appoints the Collateral Agent (and all officers, employees or agents designated by the Collateral Agent) as such Grantor's true and lawful agent (and attorney-in-fact) for the purpose, during the continuance of an Event of Default, of making, settling and adjusting claims in respect of Collateral under policies of insurance, endorsing the name of such Grantor on any check, draft, instrument or other item of payment for the proceeds of such policies of insurance and for making all determinations and decisions with respect thereto. In the event that any Grantor at any time or times shall fail to obtain or maintain any of the policies of insurance required hereby to pay any premium in whole or part relating thereto, the Collateral Agent may, without waiving or releasing any obligation or liability of the Grantors hereunder or any Event of Default, in its sole discretion, obtain and maintain such policies of insurance and pay such premium and take any other actions with respect thereto as the Collateral Agent deems advisable. All sums disbursed by the Collateral Agent in connection with this Section, including reasonable attorneys' fees, court costs, expenses and other charges relating thereto, shall be payable, upon demand, by the Grantors to the Collateral Agent and shall be additional Obligations secured hereby.

SECTION 4.12. Covenants Regarding Patent, Trademark and Copyright Collateral. (a) Each Grantor agrees that it will not, nor will it permit any of its licensees to, do any act, or omit to do any act, whereby any Patent which is material to the conduct of such Grantor's business may become invalidated or dedicated to the public, and agrees that it shall continue to mark any products covered by a Patent with the relevant Patent number as necessary and sufficient to establish and preserve its maximum rights under applicable Patent laws.

(b) Each Grantor (either itself or through its licensees or its sublicensees) will, for each Trademark material to the

-13-

conduct of such Grantor's business, (i) maintain such Trademark in full force

free from any claim of abandonment or invalidity for non-use, (ii) maintain the quality of products and services offered under such Trademark, (iii) display such Trademark with notice of federal or foreign registration to the extent necessary and sufficient to establish and preserve its maximum rights under applicable law and (iv) not knowingly use or knowingly permit the use of such Trademark in violation of any third party rights.

(c) Each Grantor (either itself or through licensees) will, for each work covered by a material Copyright, continue to publish, reproduce, display, adopt and distribute the work with appropriate copyright notice as necessary and sufficient to establish and preserve its maximum rights under applicable copyright laws.

(d) Each Grantor shall notify the Collateral Agent immediately if it knows or has reason to know that any Patent, Trademark or Copyright material to the conduct of its business may become abandoned, lost or dedicated to the public, or of any adverse determination or development (including the institution of, or any such determination or development in, any proceeding in the United States Patent and Trademark Office, United States Copyright Office or any court or similar office of any country) regarding such Grantor's ownership of any Patent, Trademark or Copyright, its right to register the same, or to keep and maintain the same.

(e) In no event shall any Grantor, either itself or through any agent, employee, licensee or designee, file an application for any Patent, Trademark or Copyright (or for the registration of any Trademark or Copyright) with the United States Patent and Trademark Office, United States Copyright Office or any office or agency in any political subdivision of the United States or in any other country or any political subdivision thereof, unless it promptly informs the Collateral Agent, and, upon request of the Collateral Agent, executes and delivers any and all agreements, instruments, documents and papers as the Collateral Agent may reasonably request to evidence the Collateral Agent's security interest in such Patent, Trademark or Copyright, and each Grantor hereby appoints the Collateral Agent as its attorney-in-fact to execute and file such writings for the foregoing purposes, all acts of such attorney being hereby ratified and confirmed; such power, being coupled with an interest, is irrevocable.

(f) Each Grantor will take all necessary steps that are consistent with the practice in any proceeding before the United States Patent and Trademark Office, United States Copyright Office or any office or agency in any political subdivision of the United States or in any other country or any political subdivision thereof, to maintain and pursue each material

-14-

application relating to the Patents, Trademarks and/or Copyrights (and to obtain the relevant grant or registration) and to maintain each issued Patent and each registration of the Trademarks and Copyrights which is material to the conduct of any Grantor's business, including timely filings of applications for renewal, affidavits of use, affidavits of incontestability and payment of maintenance fees, and, if consistent with good business judgment, to initiate opposition, interference and cancellation proceedings against third parties.

(g) In the event that any Collateral consisting of a Patent, Trademark or Copyright material to the conduct of any Grantor's business is believe infringed, misappropriated or diluted by a third party, such Grantor promptly shall notify the Collateral Agent after it obtains knowledge thereof and shall, if consistent with good business judgment, promptly sue for infringement, misappropriation or dilution and to recover any and all damages for such infringement, misappropriation or dilution, and take such other actions as are appropriate under the circumstances to protect such Collateral.

(h) Upon and during the continuance of an Event of Default, each Grantor shall use its best efforts to obtain all requisite consents or approvals by the licensor of each Copyright License, Patent License or Trademark License to effect the assignment of all the Grantors' right, title and interest thereunder to the Collateral Agent or its designee.

ARTICLE V

COLLECTIONS

SECTION 5.01. Collection Deposit Accounts. (a) At any time that an Event of Default has occurred and is continuing, upon the written request of the Collateral Agent, each Grantor agrees to establish and maintain one or more Collection Deposit Accounts with the Collateral Agent or with any financial institution that is satisfactory to the Collateral Agent and enters into a Lockbox Agreement.

(b) Upon and after the establishment of any Collection Deposit Accounts as provided above, each Grantor shall use all reasonable efforts to prevent any funds which are not payments on Accounts Receivable or Inventory from being deposited into, or otherwise commingled with, the funds held in the Collection Deposit Accounts. Unless and until the Collection Deposit Accounts are converted to closed lockbox accounts pursuant to paragraph (c) below, each Grantor may at any time withdraw any of the funds contained in a Collection Deposit Account of such

-15-

Grantor for use, subject to the provisions of the Loan Documents, for general corporate purposes.

(c) Effective upon notice to the Grantors from the Collateral Agent after the occurrence and during the continuance of an Event of Default (which notice may be given by telephone if promptly confirmed in writing), each Collection Deposit Account will, without any further action on the part of any Grantor, the Collateral Agent or any Sub-Agent, convert into a closed lockbox account under the exclusive dominion and control of the Collateral Agent in which funds are held subject to the rights of the Collateral Agent hereunder. No Grantor shall thereafter have any right or power to withdraw any funds from any Collection Deposit Account without the prior written consent of Collateral Agent until all Events of Default are cured or waived. The Grantors irrevocably authorize the Collateral Agent to notify each Sub-Agent (i) of the occurrence of an Event of Default and (ii) of the matters referred to in this paragraph (c). Following the occurrence of an Event of Default, the Collateral Agent may instruct each Sub-Agent to transfer immediately all funds held in each Collection Deposit Account to an account maintained with the Collateral Agent.

SECTION 5.02. Collections. So long as no Event of Default shall have occurred and be continuing, the Grantors shall have the right to collect all Accounts Receivable and other payments in respect of Inventory in the ordinary course of their businesses; provided, however, that the Grantors agree, if an Event of Default shall occur and be continuing and if the Collateral Agent shall by notice to the Grantors so request (which notice may be given by telephone if promptly confirmed in writing), (i) to arrange for remittances on any Accounts Receivable and Inventory to be made directly to Collection Deposit Accounts established in accordance with Section 5.01, and (ii) promptly to deposit all payments received by the Grantors on account of Accounts Receivable and Inventory, whether in the form of cash, checks, notes, drafts, bills of exchange, money orders or otherwise, in such Collection Deposit Accounts in precisely the form in which received (but with any endorsements of the Grantors necessary for deposit or collection), and until they are so deposited such payments shall be held in trust by the Grantors for and as the property of the Collateral Agent and shall not be commingled with the Grantors' other funds.

SECTION 5.03. Power of Attorney. The Collateral Agent shall have the right, as the true and lawful agent and attorney-in-fact of each of the Grantors, with power of substitution for the Grantors and in each Grantor's name or otherwise, for the use and benefit of the Collateral Agent and the Secured Parties, upon the occurrence and during the continuance of an Event of Default (a) to receive, endorse, assign and/or deliver any and all notes,

-16-

acceptances, checks, drafts, money orders or other evidences of payment relating to the Collateral or any part thereof; (b) to demand, collect, receive payment of, give receipt for and give discharges and releases of all or any of the Collateral; (c) to sign the name of any Grantor on any invoice or bill of lading relating to any of the Collateral; (d) to send verifications of Accounts Receivable to any Account Debtor; (e) to commence and prosecute any and all suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect or otherwise realize on all or any of the Collateral or to enforce any rights in respect of any Collateral; (f) to settle, compromise, compound, adjust or defend any actions, suits or proceedings relating to all or any of the Collateral; (g) to notify, or to require the Grantors to notify, Account Debtors to make payment directly to the Collateral Agent; and (h) to use, sell, assign, transfer, pledge, make any agreement with respect to or otherwise deal with all or any of the Collateral, and to do all other acts and things necessary to carry out the purposes of this Agreement, as fully and completely as though the Collateral Agent were the absolute owner of the Collateral for all purposes; provided, however, that nothing herein contained shall be construed as requiring or obligating the Collateral Agent or any

Secured Party to make any commitment or to make any inquiry as to the nature or sufficiency of any payment received by the Collateral Agent or any Secured Party, or to present or file any claim or notice, or to take any action with respect to the Collateral or any part thereof or the moneys due or to become due in respect thereof or any property covered thereby, and no action taken or omitted to be taken by the Collateral Agent or any Secured Party with respect to the Collateral or any part thereof shall give rise to any defense, counterclaim or offset in favor of any Grantor or to any claim or action against the Collateral Agent or any Secured Party. It is understood and agreed that the appointment of the Collateral Agent as the agent and attorney-in-fact of the Grantors for the purposes set forth above is coupled with an interest and is irrevocable. The provisions of this Section shall in no event relieve any of the Grantors of any of its obligations hereunder or under the Credit Agreement with respect to the Collateral or any part thereof or impose any obligation on the Collateral Agent or any Secured Party to proceed in any particular manner with respect to the Collateral or any part thereof, or in any way limit the exercise by the Collateral Agent or any Secured Party of any other or further right which it may have on the date of this Agreement or hereafter, whether hereunder, under any other Loan Document, by law or otherwise.

-17-

ARTICLE VI

REMEDIES

SECTION 6.01. Remedies upon Default. Upon the occurrence and during the continuance of an Event of Default, each of the Grantors agrees to deliver each item of Collateral to the Collateral Agent on demand, and it is agreed that the Collateral Agent shall have the right (subject to applicable law) to take any of or all the following actions at the same or different times: (a) with respect to any Collateral consisting of Intellectual Property, on demand, to cause the Security Interest to become an assignment, transfer and conveyance of any of or all such Collateral by the applicable Grantors to the Collateral Agent, or to license or, to the extent permitted by applicable law, sublicense, whether general, special or otherwise, and whether on an exclusive or nonexclusive basis, any such Collateral throughout the world on such terms and conditions and in such manner as the Collateral Agent shall determine (other than in violation of any then-existing licensing arrangements to the extent that waivers cannot be obtained), and (b) with or without legal process and with or without previous notice or demand for performance, to take possession of the Collateral and without liability for trespass to enter any premises where the Collateral may be located for the purpose of taking possession of or removing the Collateral and, generally, to exercise any and all rights afforded to a secured party under the Uniform Commercial Code or other applicable law. Without limiting the generality of the foregoing, each of the Grantors agrees that the Collateral Agent shall have the right, subject to the mandatory requirements of current law, to sell or otherwise dispose of all or any part of the Collateral, at public or private sale or at any broker's board or on any securities exchange, for cash, upon credit or for future delivery as the Collateral Agent shall deem appropriate. The Collateral Agent shall be authorized at any such sale (if it deems it advisable to do so) to restrict the prospective bidders or purchasers to persons who will represent and agree that they are purchasing the Collateral for their own account for investment and not with a view to the distribution or sale thereof, and upon consummation of any such sale the Collateral Agent shall have the right to assign, transfer and deliver to the purchaser or purchasers thereof the Collateral so sold. Each such purchaser at any such sale shall hold the property sold absolutely, free from any claim or right on the part of any of the Grantors, and each of the Grantors hereby waives (to the extent permitted by law) all rights of redemption, stay and appraisal which such Grantor now has or may at any time in the future have under any rule of law or statute now existing or hereafter enacted.

-18-

The Collateral Agent shall give the Grantors 10 days' written notice (which each of the Grantors agrees is reasonable notice within the meaning of Section 9-504(3) of the Uniform Commercial Code as in effect in the State of New York or its equivalent in other jurisdictions) of the Collateral Agent's intention to make any sale of Collateral. Such notice, in the case of a public sale, shall state the time and place for such sale and, in the case of a sale at a broker's board or on a securities exchange, shall state the board or exchange

at which such sale is to be made and the day on which the Collateral, or portion thereof, will first be offered for sale at such board or exchange. Any such public sale shall be held at such time or times within ordinary business hours and at such place or places as the Collateral Agent may fix and state in the Notice (if any) of such sale. At any such sale, the Collateral, or portion thereof, to be sold may be sold in one lot as an entirety or in separate parcels, as the Collateral Agent may (in its sole and absolute discretion) determine. The Collateral Agent shall not be obligated to make any sale of any Collateral if it shall determine not to do so, regardless of the fact that notice of sale of such Collateral shall have been given. The Collateral Agent may, without notice or publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for sale, and such sale may, without further notice, be made at the time and place to which the same was so adjourned. In case any sale of all or any part of the Collateral is made on credit or for future delivery, the Collateral so sold may be retained by the Collateral Agent until the sale price is paid by the purchaser or purchasers thereof, but the Collateral Agent shall not incur any liability in case any such purchaser or purchasers shall fail to take up and pay for the Collateral so sold and, in case of any such failure, such Collateral may be sold again upon like notice. At any public sale made pursuant to this Section, any Secured Party may bid for or purchase, free (to the extent permitted by law) from any right of redemption, stay, valuation or appraisal on the part of any of the Grantors (all said rights being also hereby waived and released to the extent permitted by law), the Collateral or any part thereof offered for sale and may make payment on account thereof by using any claim then due and payable to such Secured Party from any of the Grantors as a credit against the purchase price, and such Secured Party may, upon compliance with the terms of sale, hold, retain and dispose of such property without further accountability to any of the Grantors therefor. For purposes hereof, a written agreement to purchase the Collateral or any portion thereof shall be treated as a sale thereof; the Collateral Agent shall be free to carry out such sale pursuant to such agreement and none of the Grantors shall be entitled to the return of the Collateral or any portion thereof subject thereto, notwithstanding the fact that after the Collateral Agent shall have entered into such an agreement all

-19-

Events of Default shall have been remedied and the Obligations paid in full. As an alternative to exercising the power of sale herein conferred upon it, the Collateral Agent may proceed by a suit or suits at law or in equity to foreclose this Agreement and to sell the Collateral or any portion thereof pursuant to a judgment or decree of a court or courts having competent jurisdiction or pursuant to a proceeding by a court-appointed receiver.

SECTION 6.02. Application of Proceeds. The Collateral Agent shall apply the proceeds of any collection or sale of the Collateral, as well as any Collateral consisting of cash, as follows:

FIRST, to the payment of all costs and expenses incurred by the Administrative Agent or the Collateral Agent (in its capacity as such hereunder or under any other Loan Document) in connection with such collection or sale or otherwise in connection with this Agreement or any of the Obligations, including all court costs and the fees and expenses of its agents and legal counsel, the repayment of all advances made by the Collateral Agent hereunder or under any other Loan Document on behalf of any of the Grantors and any other costs or expenses incurred in connection with the exercise of any right or remedy hereunder or under any other Loan Document;

SECOND, to the payment in full of the Obligations (the amounts so applied to be distributed among the Secured Parties pro rata in accordance with the amounts of the Obligations owed to them on the date of any such distribution);

THIRD, to the extent and so long as any Letter or Letters of Credit remain outstanding and entrain, to be held and retained by the Collateral Agent and applied to reimburse the Issuing Bank for any L/C Disbursement thereafter made; and

FOURTH, to the Grantors, their successors or assigns, or as a court of competent jurisdictions may otherwise direct.

The Collateral Agent shall have absolute discretion as to the time of application of any such proceeds, moneys or balances in accordance with this Agreement. Upon any sale of the Collateral by the Collateral Agent (including pursuant to a power of sale granted by statute or under a judicial proceeding), the receipt of the Collateral Agent or of the officer making the sale shall be a sufficient discharge to the purchaser or purchasers of the Collateral so sold and such purchase or purchasers shall not be

obligated to see to the application of any part of the purchase money paid over to the Collateral Agent or such officer or be answerable in anyway for the misapplication thereof.

SECTION 6.03. Grant of License to Use Intellectual Property. For the purpose of enabling the Collateral Agent to exercise rights and remedies under this Article VI at such time as the Collateral Agent shall be lawfully entitled to exercise such rights and remedies, each Grantor hereby grants to the Collateral Agent an irrevocable, nonexclusive license (exercisable without payment of royalty or other compensation to the Grantors) to use, license or sublicense any of the Collateral consisting of Intellectual Property now owned or hereafter acquired by such Grantor, and wherever the same may be located, and including in such license reasonable access to all media in which any of the licensed items may be recorded or stored and to all computer software and programs used for the compilation or printout thereof. The use of such license by the Collateral Agent shall be exercised, at the option of the Collateral Agent, upon the occurrence and during the continuation of an Event of Default; provided that any license, sublicense or other transaction entered into by the Collateral Agent in accordance herewith shall be binding upon the Grantors notwithstanding any subsequent cure of an Event of Default.

ARTICLE VII

MISCELLANEOUS

SECTION 7.01. Notices. All communications and notices hereunder shall (except as otherwise expressly permitted herein) be in writing and given as provided in Section 9.01 of the Credit Agreement. All communications and notices hereunder to any Subsidiary Grantor shall be given to it at its address or telecopy number set forth on Schedule I, with a copy to the Borrower.

SECTION 7.02. Security Interest Absolute. All rights of the Collateral Agent hereunder, the Security Interest and all obligations of the Grantors hereunder shall be absolute and unconditional irrespective of (a) any lack of validity or enforceability of the Credit Agreement or any other Loan Document, any agreement with respect to any of the Obligations or any other agreement or instrument relating to any of the foregoing, (b) any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to any departure from the Credit Agreement, any other Loan Document or any other agreement or instrument, (c) any exchange, release or non-perfection of any Lien on other collateral, or any release or

amendment or waiver of or consent under or departure from any guarantee, securing or guaranteeing all or any of the Obligations, or (d) any other circumstance which might otherwise constitute a defense available to, or a discharge of, any Grantor, in respect of the Obligations or this Agreement.

SECTION 7.03. Survival of Agreement. All covenants, agreements, representations and warranties made by any Grantor herein and in the certificates or other instruments prepared or delivered in connection with or pursuant to this Agreement or any other Loan Document shall be considered to have been relied upon by the Lenders and shall survive the making by the Lenders of the Loans, and the issuance by the Issuing Bank of any Letters of Credit, regardless of any investigation made by the Lenders or on their behalf, and shall continue in full force and effect until this Agreement shall terminate.

SECTION 7.04. Binding Effect; Several Agreement. This Agreement shall become effective as to any Grantor when a counterpart hereof executed on behalf of such Grantor shall have been delivered to the Collateral Agent and a counterpart hereof shall have been executed on behalf of the Collateral Agent, and thereafter shall be binding upon such Grantor and the Collateral Agent and their respective successors and assigns, and shall inure to the benefit of such Grantor, the Collateral Agent and the other Secured Parties and their respective successors and assigns, except that no Grantor shall have the right to assign its rights hereunder or any interest herein or in the Collateral except as expressly contemplated by this Agreement or the Credit Agreement. This Agreement shall be construed as a separate agreement with respect to each Grantor and may be amended, modified, supplemented, waived or released with respect to any

Grantor without the approval of any other Grantor and without affecting the obligations of any other Grantor hereunder.

SECTION 7.05. Successors and Assigns. Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party; and all covenants, promises and agreements by or on behalf of any Grantor or the Collateral Agent that are contained in this Agreement shall bind and inure to the benefit of their respective successors and assigns.

SECTION 7.06. Collateral Agent Appointed Attorney-in-Fact. Each of the Grantors hereby appoints the Collateral Agent the attorney-in-fact of such Grantor for the purpose of carrying out the provisions of this Agreement and taking any action and executing any instrument which the Collateral Agent may deem necessary or advisable to accomplish the purposes hereof, which appointment is irrevocable and coupled with an interest.

-22-

SECTION 7.07. Collateral Agent's Expenses; Indemnification. (a) Each of the Grantors jointly and severally agrees to pay upon demand to the Collateral Agent the amount of any and all reasonable expenses, including the reasonable fees and expenses of its counsel and of any experts or agents, which the Collateral Agent may incur in connection with (i) the administration of this Agreement (including the customary fees of the Collateral Agent for any audits conducted by it with respect to the Accounts Receivable or Inventory), (ii) the custody or preservation of, or the sale of, collection from or other realization upon any of the Collateral, (iii) the exercise, enforcement or protection of any of the rights of the Collateral Agent hereunder or (iv) the failure of the Grantors to perform or observe any of the provisions hereof.

(b) Without limitation of their indemnification obligations under the other Loan Documents, each of the Grantors jointly and severally agrees to indemnify the Collateral Agent and the other Secured Parties against, and hold each of them harmless from, any and all losses, claims, damages, liabilities and related expenses, including reasonable counsel fees and expenses, incurred by or asserted against any of them arising out of, in any way connected with, or as a result of, the execution, delivery or performance of this Agreement or any claim, litigation, investigation or proceeding relating hereto or to the Collateral, whether or not any Secured Party is a party thereto; provided that such indemnity shall not, as to any Secured Party, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or wilful misconduct of such Secured Party.

(c) Any such amounts payable as provided hereunder shall be additional Obligations secured hereby and by the other Security Documents. The provisions of this Section shall remain operative and in full force and effect regardless of the termination of this Agreement, the consummation of the transactions contemplated hereby, the repayment of any of the Loans, the invalidity or unenforceability of any term or provision of this Agreement or any other Loan Document, or any investigation made by or on behalf of the Collateral Agent or any Lender. All amounts due under this Section shall be payable on written demand therefor.

SECTION 7.08. GOVERNING LAW. THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK.

SECTION 7.09. Waivers; Amendment. (a) No failure or delay of the Collateral Agent in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single

-23-

or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Collateral Agent hereunder and of the Collateral Agent, the Administrative Agent and the Lenders under the other Loan Documents are cumulative and are not exclusive of any rights or remedies which they would otherwise have. No waiver of any provisions of this Agreement or consent to any departure by any Grantor therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) below, and then such waiver or consent

shall be effective only in the specific instance and for the purpose for which given. No notice or demand on any Grantor in any case shall entitle such Grantor or any other Grantor to any other or further notice or demand in similar or other circumstances.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Collateral Agent and the Grantor or Grantors with respect to which such waiver, amendment or modification is to apply, with (and subject to) the prior written consent of the Required Lenders or, if the effect of such agreement is to release all or any substantial part of the Collateral other than in accordance with Section 7.15, each Lender.

SECTION 7.10. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS. EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS, AS APPLICABLE, BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

SECTION 7.11. Severability. In the event any one or more of the provisions contained in this Agreement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby. The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

-24-

SECTION 7.12. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one contract (subject to Section 7.04), and shall become effective as provided in Section 7.04.

SECTION 7.13. Headlines. Article and Section headings used herein are for convenience of reference only, are not part of this Agreement and are not to affect the construction of, or to be taken into consideration in interpreting, this Agreement.

SECTION 7.14. Jurisdiction; Consent to Service of Process. (a) Each Grantor hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any New York State court or Federal court of the United States of America sitting in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or the other Loan Documents, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Collateral Agent or any Lender may otherwise have to bring any action or proceeding relating to this Agreement or the other Loan Documents against any Grantor or its properties in the courts of any jurisdiction.

(b) Each Grantor hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or the other Loan Documents in any New York State or Federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(c) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 7.01. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 7.15. Termination. This Agreement and the Security Interest shall terminate when all the Obligations have been indefeasibly paid in full and the Lenders have no further

commitment to extend credit and the Issuing Bank has no further commitment to issue Letters of Credit under the Credit Agreement and all outstanding Letters of Credit have been cancelled (or at such earlier time as such termination occurs pursuant to and in accordance with Section 9.17 of the Credit Agreement), at which time the Collateral Agent shall execute and deliver to the Grantors, at the Grantors' expense, all Uniform Commercial Code termination statements and similar documents which the Grantors shall reasonably request to evidence such termination. Any execution and delivery of termination statements or documents pursuant to this Section 7.15 shall be without recourse to or warranty by the Collateral Agent. Each Subsidiary Grantor shall automatically be released from its obligations hereunder and the Security Interest in the Collateral owned by such Subsidiary Grantor shall be automatically released in the event that all the capital stock of such Subsidiary Grantor shall be sold, transferred or otherwise disposed of to a person that is not an Affiliate of the Borrower in accordance with the terms of the Credit Agreement; provided that the Required lenders shall have consented to such sale, transfer or other disposition and the terms of such consent did not provide otherwise.

SECTION 7.16. Additional Grantors. Upon execution and delivery by the Collateral Agent and a Subsidiary of an instrument in the form of Annex 3 hereto, such Subsidiary shall become a Subsidiary Grantor and Grantor hereunder with the same force and effect as if originally named as a Subsidiary Grantor and Grantor herein. The execution and delivery of any such instrument shall not require the consent of any Grantor hereunder. The rights and obligations of each Grantor hereunder shall remain in full force and effect notwithstanding the addition of any new Grantor as a party to this Agreement.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

ETHAN ALLEN INC.

By /s/ M. Farooq Kathwari
Name: M. Farooq Kathwari
Title: President

ANDOVER WOOD PRODUCTS, INC.

By /s/ M. Farooq Kathwari
Name: M. Farooq Kathwari
Title: President

ETHAN ALLEN MANUFACTURING
CORPORATION

By /s/ M. Farooq Kathwari
Name: M. Farooq Kathwari
Title: President

ETHAN ALLEN FINANCE
CORPORATION

By /s/ M. Farooq Kathwari
Name: M. Farooq Kathwari
Title: President

CHEMICAL BANK, as Collateral
Agent

By /s/ Neil R. Boylan
Name: Neil R. Boylan
Title: Vice President

-27-

SCHEDULE I
to the Security Agreement

SUBSIDIARY GRANTORS

1. Andover Wood Products, Inc.
2. Ethan Allen Manufacturing Corporation
3. Ethan Allen Finance Corporation

SCHEDULE II
to the Security Agreement

SCHEDULE OF U.S. COPYRIGHTS AND COPYRIGHT APPLICATIONS

Copyright	Registration Number	Registration Date
Customer follow-up card system--securing the in-home call	PA-217-001	04/05/84
The Ethan Allen philosophy	PA-217-002	04/05/84
Expanding horizons	PA-217-003	04/05/84
Selling the Ethan Allen way	PA-217-004	04/05/84
Increase your sales, the in- home calls	PA-217-005	04/05/84
How to sell Ethan Allen wood furniture	PA-217-006	04/05/84
Ethan Allen summer sale '83	PA-217-007	04/05/84
How to sell Ethan Allen upholstered furniture	PA-217-008	04/05/84
Presenting the Treasury	PA-217-009	04/05/84
Recruitment and selection: in search of the perfect designer salesperson	PA-217-010	04/05/84
Ethan Allen lighting, value plus	PA-217-011	04/05/84

Winter sales '84	PA-217-012	04/05/84
Basic window treatments	PA-217-013	04/05/84
Ethan Allen floorcovering: broadloom & oriental rugs	PA-225-565	04/05/84
Ethan Allen summer sale '84	PA-228-339	09/12/84
Ethan Allen recliners	PA-228-340	09/12/84
Spring decorating sale '84	PA-228-341	09/12/84
Ethan Allen's spring collections, 1984	PA-234-586	11/08/84
Your first home	PA-234-587	11/08/84
Christmas mailer promotion '84	PA-234-588	11/08/84
Ethan Allen winter sale '85	PA-240-557	01/22/85
Ethan Allen spring sale '85	PA-252-484	04/24/85
The Ethan Allen consumer finance plan	PA-273-941	10/25/85
Ethan Allen broadlooms	TX-1-319-747	04/05/84
Ethan Allen wood furniture construction	TX-1-319-748	04/05/84
Ethan Allen bedspreads	TX-1-319-749	04/05/84
Ethan Allen glossary of furniture terms	TX-1-319-750	04/05/84
Ethan Allen product reference guide: Heirloom	TX-1-319-751	04/05/84
Ethan Allen broadloom: estimating and measuring	TX-1-319-752	04/05/84
American traditional: a comprehensive guide to home decorating the Ethan Allen way	TX-1-505-415	01/31/85
Creating organized analytical coaching habits	TX-523-061	08/07/80

-2-

SCHEDULE III
to the Security Agreement

Name	Location	Date	Marks
Concord House of Lubbock, Inc.	4703 S. Loop 289 Lubbock, TX 79424	1/20/92 5/5/92	1
Wayside Furniture Shops, Inc.	Derby Milford Norwalk Southington	5/20/93	1
Alberta Heirloom House Limited	6707 Elbon Dr. SW Calgary, Alberta, CN	5/4/92	1
Chalmor Furniture	1363 Pleasant Street Fall River, MA 02723	--	1
Hubbards Home Furnishings, Inc.	16 N. Batavia Avenue Batavia, IN	6/12/92	1
3685 Investment Ltd.	25 King Edward Street Coquitlan, B.C.	--/93	1
Montclair Interiors Inc.	5001-5003 Montclair Plaza South Montclair, CA 91763	2/2	2
Fischers Associates Rainbow Corporation	1540 S. Rainbow Blvd. Las Vegas, NV 89119	10/26/94	2
Cooke, Rider, and Fransen C.R.F., Inc.	3220 First Avenue North Billings, MT 59101	10/7/94	2
Feldman Brothers, Incorporated	306-310 West Main Street Salisbury, MA	12/15/94	2
Fredeens Interiors Inc.	19 Stafford Road Nepean, Ontario Canada K2H 8VE	5/12/92	1
R.J. Fischer, Inc.	300 E. Route 59 Nanuet, NY 10954	5/5/93	1
Whippany Manor	245 Route 10 Whippany, NJ 07981	5/5/93	1
Yeager's Carriage House Inc.	Santa Rosa, CA	6/10/92	1
W&B Furniture Inc.	4118 West Market Street Akron, OH 44333	5/5/93	1
Village Carriage House, Inc.	1501 Montgomery Highway Dothan, AL 36303	5/15/92	1
Village Shops Inc.	861 E. El Camino Real Mt. View, CA 94040	6/1/92	1
Valley Manor South Inc.	15053 South Dixie Highway Miami, FL 33176	4/28/92	1
Valley Manor	8750 Tampa Avenue	5/5/92	1

Northridge, CA 91324

Hector Valdizon	1363 South E. Street San Bernardino, CA 92408	6/1/92	1
	2248 Griffin Way Corona, CA	6/1/92	1
United Home Furnishings, Inc.	114 N. 3rd Street Paducah, KY 42001	5/15/92	1
Traditional Interiors, Inc.	633 Northeast Loop 82B Hurst, TX 76053	5/15/92	1
Larry & DBA	Sacramento, CA	5/5/93	1
Tradition House, Inc.	8200 E. Sprague Spokane, WA 99212	5/5/93	1
Thompson's Carriage House, Inc.	4325 S. Padre Island Drive Corpus Christi, TX 78411	1/23/93 (11/11/92)	N/A
Thomas Furniture Co.	815 West S.W. Loop 323 Tyler, TX 75701	8/5/92	1
	200 West Oak Denton, TX 76201		
Stern's Carriage House Inc.	2705 W. Monroe Street Springfield, IL 62704	9/2/92	N/A
TWT, Inc.	875 WSW Loop 323 Tyler, TX 75901	11/11/92	N/A
_____ Carriage House	1111 E. Highway 26 St. Paul, MN	4/27/92	1
Star Furniture	445 N. Rosemead Blvd. Pasadena, CA 91107	7/28/92	1
Stacy's Enterprises, Inc.	16240 U.S. 41 S. Ft. Myers, FL 33908	5/28/92	1
Simon's Home Furnishings, Inc.	3445 Kietzke Lane Reno, NV 89502	5/7/92	1
Shipley's Inc.	1353 Brevard Road Asheville, NC 28806	6/4/92	1
Sherman Furniture Co. Inc.	310 Court St. No. Plymouth, MA	5/29/92	1
Robert J. Scott, Inc.	Colorado Springs, CO	4/27/92	1
Schwartz Furniture	990101 West Main Street	7/22/92	1

-2-

Somerville, NJ 08876

Thomas Ross Inc.	3641 Sycamore Dairy Road Fayetteville, NC	4/28/92	1
Reis Carriage House, Inc.	5621 N. Oracle Road Tucson, AZ 85704	5/5/93	1
R&G Furniture Corp.	Eastview Mall Victor, NY 14564	5/5/93	1
	Greece Towne Mall Rochester, NY 14626	5/5/93	1
	-3-		
Restful Furniture Corp.	456 Montauk Highway Bayshore, NY 11706	4/28/93	1
Sam Y. Phillips & Sons Inc.	Austin, TX Abilene, TX Odessa, TX	5/5/93	1
National Retail Corporation	8955 Beach Boulevard Jacksonville, FL	5/18/92	1
	7666 Blanding Boulevard Jacksonville, FL		
	(Orlando, FL)		
Osborne's Galleries, Inc.	4230 Rosewood Dr. Pleasanton, CA 94588	6/3/92	1
Nassau's	Canton, CT Enfield, CT	5/30/92	1
N&K Furniture Corporation	1069 Montgomery Highway Birmingham, AL 35211	5/6/92	1
Morrison Furniture Inc.	20040 Governors Highway Olympia Fields, IL 60461	5/4/92	1
	Orlando Park, IL		
The Manor House Inc.	5301 North 16th Street Phoenix, AZ 85016	4/27/92	1
Mark Brown & Sons	4545 So. ___ East Salt Lake City, UT 84117	5/4/92	1
Manor House	Richmond, VA	6/29/92	1
Mak Inc.	3309 Hartzdale Dr. Camp Hill, PA 17011	6/1/92	1
McFarlands Carriage House	450 S. Yonge St.	6/23/92	1

-4-

W.L. Landau's Carriage House	River Edge, NJ 07661 Hartsdale, NY	5/5/93	1
Kweller's Georgetown Manor, Inc.	5064 Hamilton Blvd. Allentown, PA 18706	6/1/92	1
Kittle Home Furnishings Center Inc.	8600 Allisonville Road Indianapolis, IN 46250	6/25/92	1
Mirons	1541 Route 22 Watchung, NJ 07060	4/28/92	1
	East Brunswick, NJ	4/28/91	1
Kitslaar's Carriage House Inc.	2350 So. Oneida St. Green Bay, WI 54304	5/5/93	1
Kineads Ethan Allen	5130 Madison Avenue Sacramento, CA 95841	5/5/93	1
Jonsey Inc.	525 Forest Avenue Portland, ME	6/12/92	1
Home Furniture			
Home Furniture & Appliance	121 N. Main Miami, OK	5/5/93	1
Home Environments Inc.	192 Rt 101 West Bedford, NH	4/27/92	1
Heyman's Furniture Co., Inc.	24 East Third Street Williamsport, PA 17701	10/13/92	1
Grand Gallery of Shreveport, Inc.	8824 Youree Drive Shreveport, LA	5/5/93	1
Grand Gallery, Inc.	8560 Florida Blvd. Baton Rouge, LA 70806	6/18/92	1
Gesman's Ethan Allen	4420 Emerson Ave. Barkersburg, WV	5/5/92	N/A

-5-

Helke Furniture Co.	2107 Robin Lane Wausau, WI 51401	5/8/92	1
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Georgetown Manor Inc.	Portland, OR Clackamas, OR	6/1/92	1
Georgetown Manor	1024 N. Fuller St. Santa Ana, CA 92701	6/6/92	1
Garon's Furniture Co. Inc.	8727 Loch Raven Blvd. Baltimore, MD 21286 (3 locations)	8/6/92	1
Fratco Inc.	230 Northern Blvd. Clarks Summit, PA 18411	5/5/93	1
Fowler's Carriage House	305 So. Central Expwy Richardson, TX 75080	5/5/93	1
Fisher's Carriage House	4720 E. State St. Rockford, IL 61108	5/5/93	1
Fischer Corporation	4043 S. Eastern Ave. Las Vegas, NV 89119	5/4/92	1
Ethan Allen	Little Rock, AK Fayetteville, AK	7/2/92	1
Drinnin's Inc.	416 North Rock Road Wichita, KS 67206	6/4/92	1
Doud's Inc.	Main St. Plumville, PA 16246	8/11/92	1
Dekorner Furniture Co.	3450 28th St. SE Grand Rapids, MI 49512	6/12/92	1
Davidsons Furniture Co.	8001 W. Dodge Rd. Omaha, NE 68124	5/5/93	1
	70th & Van Dorn Lincoln, NE 68506	5/5/93	1
E. O. Crawford & Sons, Inc.	472 N. Military Hgwy. Norfolk, VA	7/7/92	1
	3032-1 Richmond Rd. Williamsburg, VA	7/7/92	1
Country Manor	312 E. Main St. Branford, CT 06405	5/5/93	1
Concord House	2191 Central Ave. Schenectady, NY 12304	5/5/93	1
Cohen Furniture Company	1344 East Empire Bloomington, IL 61701	5/5/93	1

Classic Imports, S.A. DE C.V.	1618 Insurgentes St. Mexico City, Mexico	5/5/93	1
Carter Furniture Co.	6767 N. High St. Worthington, OH 43085	5/5/92	1
Carriage Trade Inc.	Eatontown, NJ 07731	1/9/05	1
Carriage House Interiors, Inc.	6200 N. Dale Mabry Tampa, FL 33164	5/3/92	1
	10015 Adamo Drive Tampa, FL 33619	5/3/92	1
Carriage House of Greenville	1184 N. Pleasantburg Dr. Greenville, SC 29607	5/5/93	1
Carriage House Gallery, Inc.	5302 Verona Road Madison, WI 53711	5/20/92	1
Carriage House Inc.	4701 Summer Ave. Memphis, TN	5/12/92	1
	Cordova Center Memphis, TN	5/12/92	1
Carriage House Inc.	7700 Hickman Road Des Moines, IA 50325	4/4/92	1
Carriage House Furniture Shop Inc.	1924 Shelburne Rd Shelburne, VT 05482	5/4/92	1
-7-			
Carriage House Furniture Inc.	12618 Interurban Ave. S. Tukwila, WA 98168 (3 locations)	6/8/92	1
Carriage House Furniture Inc.	9801 Linn Station Road Louisville, KY	10/20/92	1
Carriage House of Columbus Inc.	3939 Macon Rd. Columbus, GA 31907	6/3/92	1
Carriage House	117 W. Shepard Lufkin, TX 75701	11/11/92	N/A
Carriage House	10001 Kingston Pike Knoxville, TN 37922	8/13/92	1
Carriage House	10720 Pacific Street Omaha, NE 68114	5/5/92	2
Cabot House	Saugus, MA Phalstow, NH	11/9/92	1
Burgess Carriage House	Pinellas Park, FL	10/14/92	1

Port Richey, FL
Lakeland, FL
Sarasota, FL

Brough Corp.	3011 E. Shields Fresno, CA 93726	4/28/92	1
Brenners Furn. Co., Inc.	210 N. Plank Road Newburg, NY 12550	5/12/92	1
Claypool's Ethan Allen	2330 I-H 30 Mesquite, TX 75150	5/5/92	1
Stanley F. Company	111-115 N. Mechanic Street Carthage, NY 13619	/ /92	1
Bly & Sons, Inc.	455 Salem Place Fairview Heights, IL 62208	6/20/92	1
Wm M. Bloomfield Inc.	2500 Fontaine Road San Jose, CA (2 Locations)	5/4/92	1

-8-

Blair House of Trevoise, Inc.	4625 Street Road Trevoise, PA 19053	5/5/93	1
Blair House Inc.	2470 Brunswick Pike Lawrenceville, NJ 08648	/ /92	1
Blair House of Pa. Inc.	668 Bethlehem Pike Montgomeryville, PA 18936	/ /92	1
Blair House of Cherry Hill, Inc.	261 Route 38 Maple Shade, NJ 08052	/ /92	1
Benner's Carriage House Inc.	2138 North Josey Lane Carrollton, TX 75006	5/5/93 5/24/94	1 2
B&R Furniture	Dewey Ave. & E. Genese Stre DeWitt, NY 13066	6/1/92	1
Arlo Enterprises	Concord, CA	5/5/93	1
Americana Furniture Barn Inc.	703 Long Hill Road Groton, CT 06505	5/13/93	1
Adams Furniture Inc.	613 West Lake Avenue Peoria, IL 61614	5/16/92	1
Abbey Coordinated Interiors	3875 Sheridan Drive Amherst, NY 14226	5/5/93	1
Carriage House Interiors Inc.	6 Locations - Colorado & Corporation	5/5/93	1
Kwellers' Manor House	4118 Electric Road	12/18/92	1

Roanoke, VA 24014

Bragg's Ethan Allen	3017 South Parkway Huntsville, AL 35801	8/10/92	1
Carriage House, Inc.	5221 U.S. Route 60 East Huntington, WV 25705	5/5/93	1
Georgetown Interiors Inc.	12504 Candelaria Road, NE Albuquerque, NM 87112	5/5/93	1
-9-			
Mared Furniture Inc.	McMurray, PA Monroeville, PA Wexford, PA	11/23/93	2
Andover Interiors Inc.	419 Andover Street North Andover, MA 08145	7/7/94	N/A
Salvesen's Furniture Galleries	1607 Mesquite Avenue Lake Havasu City, AZ 86403	9/12/94	2
The Myers Corporation	Route 132 Hyannis, MA 02601	9/12/94	2
Kalo Ltd.	2300 West 49th Street Sioux Falls, SD	7/14/94	2
Thomas & Kline Inc.	6755 West Central Sylvania, OH 43560	7/6/94	2
AJ Gallery of Boise Inc.	400 North Cole Road Boise, ID 83706	8/19/94	2
Servco Distributing Inc.	4081-R Westheimer Houston, TX 77027	6/1/94	N/A
Canterbury House	Holiday Mall Moorhead, MN 56560	9/15/92	N/A
Albert M. Churilla Inc.	1775 Band Hill Road Warwick, RI 02886 (Amendment Only)	9/25/93	N/A
Schultz Furniture Inc.	411 West Yakima Yakima, WA 98902	10/4/92	N/A

Notes

- 1 = Servicemarks include "Ethan Allen", EA Logo & Design SM.
- 2 = Covers same marks as in Note 1 plus Ethan Allen Trade Name.
- 3 = Above is subject to review for updating. May also need to include; Japan, Jordan, Korea, Saudi Arabia.

SCHEDULE IV
to the Security Agreement

SCHEDULE OF U.S. PATENTS AND PATENT APPLICATIONS

I. PATENTS

Inventor(s)	Title	Serial Number	Filing Date
	Store Front	346,451	04/26/94
	Store Front	349,413	08/09/94
	Arm Chair	340,197	08/02/94
	Curio China	343,743	02/01/94
	Bed	336,797	06/29/93
	Div. of 005	345,264	03/22/94
Irving Sabo	Furniture Knob	5,255,413	10/26/94
	Store Front II	346,664	05/03/94

II. DESIGN PATENT APPLICATIONS

Inventor(s)	Title	Serial Number	Filing Date
Joel Brand	Store Front II	000,495	10/15/92
Philip Stone et	Side Chair	877,018	05/01/92
Philip Stone et	Arm.Chair	877,019	05/01/92
Philip Stone et	Bed.	877,020	05/01/92
Philip Stone et	Curio China	882,629	05/13/92
Joel Brand	Store Front	892,512	06/01/92
	Div. of 001	18,596	02/10/94
	Accent Chair	32,400	12/19/94
	Poster Bed	32,407	12/19/93
	Sofa/Cons. Table	32,406	12/19/93
	Ell. Coffee Table	32,405	12/19/94
	Disp. Coffee Table	32,404	12/19/94
	Curio Cabinet	32,403	12/19/94
	Entertainment Unit	32,402	12/19/94
	Armoire	32,401	12/19/94

III. UTILITY PATENT APPLICATIONS

None.

SCHEDULE V
to the Security Agreement

U.S. TRADEMARKS AND TRADEMARK APPLICATIONS

I. Schedule of U.S. Trademark Registrations

Trademark	Registration Number	Registration Date
Ethan Allen (Script Form)	381,746	10/01/40
Ethan Allen	697,295	05/10/60
Ethan Allen	737,146	09/04/62
Kling	851,020	06/18/68
Ethan Allen	903,549	12/01/70
Ethan Allen	903,855	12/08/70
Ethan Allen	904,124	12/15/70
Ethan Allen	905,053	12/29/70
Ethan Allen	906,171	01/19/71
Ethan Allen	907,552	02/09/71
Ethan Allen	907,567	02/10/71
Ethan Allen	910,034	03/16/71
Ethan Allen	911,916	06/08/71
Ethan Allen	922,385	10/19/71
Ethan Allen	929,420	02/22/72
Ethan Allen	930,136	02/28/72
Ethan Allen	942,357	03/05/72
Ethan Allen	972,404	11/06/73
Ethan Allen	998,857	11/19/74
Knob Creek	1,000,742	12/31/74
Ethan Allen	1,003,506	01/28/75
Ethan Allen	1,003,584	01/28/75
Ethan Allen	1,003,604	01/28/75
Ethan Allen	1,003,617	01/28/75

Ethan Allen	1,003,605	01/28/75
Ethan Allen Inn (Script Form)	1,012,476	06/03/75
Ethan Allen	1,127,735	12/11/79
Ethan Allen in Colonial House	1,247,706	08/09/83

Knob Creek and Design	1,337,963	05/28/85
We Care About Your Home	1,510,514	10/25/88
Newport Cherry	1,524,041	02/07/89
Ethan Allen In Colonial House	1,688,646	05/26/92
Ethan Allen	1,741,943	12/22/92
American Expressions	1,801,558	10/26/93
EA	1,801,318	10/20/93
Ethan Allen	1,741,943	12/22/92
Ethan Allen & Store Design #4	1,837,311	05/17/94

II. Schedule of U.S. Trademark Applications

Trademark	Registration Number	Registration Date
Ethan Allen & Store Design #2	270,416	04/28/92
Ethan Allen & Store Design #1	272,475	04/28/92
Ethan Allen & Store Design #3	324,577	00/21/92
Ethan Allen in Colonial House	622,456	08/09/83

-3-

III. Schedule of Trade, Fictitious and Other Names

Trade Names	Used By:	Jurisdictions
Ethan Allen	Ethan Allen Inc.	Connecticut and in each other state where Ethan Allen Inc. is qualified to do business.
Ethan Allen Gallery	Ethan Allen Inc.	
Ethan Allen Home Interiors	Ethan Allen Inc.	

ETHAN ALLEN INTERIORS INC.
Computation of Per Share Earnings

	Three Months Ended December 31,		Six Months Ended December 31,	
	1996	1995	1996	1995
	----	----	----	----
Primary Earnings Per Share:				
Average number of shares outstanding	14,388,000	14,395,000	14,363,000	14,375,000
Treasury stock	(518,000)	(134,000)	(524,000)	(134,000)
Net effect of common stock equivalents	751,000	211,000	788,000	295,000
	-----	-----	-----	-----
Average number of shares - primary	14,621,000	14,472,000	14,627,000	14,536,000
Net income available to common shareholder	\$12,227,000	\$ 7,841,000	\$21,010,000	\$12,341,000
	=====	=====	=====	=====
Per Share Data				
Net income per common share	\$ 0.84	\$ 0.54	\$ 1.44	\$ 0.85
	=====	=====	=====	=====

Earnings Per Common Share:

Earnings per common share are computed by dividing net earnings by the weighted average number of shares of common stock and common stock equivalents outstanding during each period. The Company has issued stock options and warrants which are the Company's only common stock equivalents.

Fully Diluted Earnings Per Share:

Fully diluted earnings per share is within 3% of primary earnings per share for all periods presented.

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This schedule contains summary financial information extracted from the consolidated financial statements of Ethan Allen Interiors, Inc. for the quarter ended December 31, 1996 and is qualified in its entirety by reference to such financial statement

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<F1> Not applicable. All figures for Ethan Allen Interiors, Inc. are in U.S. dollars.

<F2> Figure for receivables is net of allowances for doubtful accounts of \$2,446.

<F3> Includes prepaid expenses of \$7,476.

<F4> Includes goodwill of \$9,207 (net of amortization).

<F5> Includes current portion of long-term debt of \$1,878 as of December 31, 1996.

<F6> Includes long-term debt of \$63,857 (net of the current portion of long-term debt) and capitalized leases of \$2,867 (net of the current portion of capitalized leases). As of December 31, 1996 outstanding long-term debt of Ethan Allen on a consolidated basis consisted of (i) 8.75% senior notes of \$52,616, (ii) 9.75% mortgage note of \$1,571 (net of current portion), (iii) industrial revenue bonds of \$8,455, and (iv) other of \$1,215 (net of current portion). For a description of the terms of Ethan Allen's long-term debt, see Footnote 8 to Ethan Allen's fiscal 1996 Consolidated Financial Statements.

<F7> As of December 31, 1996, Ethan Allen had no shares of preferred stock, \$.01 par value per share, outstanding. For a description of Ethan Allen's preferred stock as of June 30, 1996, see Ethan Allen's fiscal 1996 Consolidated Statement of Stockholders' Equity and Footnote 10 to Ethan Allen's fiscal 1996 Notes to Consolidated Financial Statements.

<F8> As of December 31, 1996, Ethan Allen had 14,665,165 shares of common stock, \$.01 par value per share, issued. For a description of Ethan Allen's common stock as of June 30, 1996, see Ethan Allen's fiscal 1996 Consolidated Statement of Stockholders' Equity and Footnote 10 of Ethan Allen's fiscal 1996 Consolidated Financial Statements.

<F9> Consists of \$255,170 of additional paid in capital, \$(8,397) of retained earnings, and (\$5,606) of treasury stock.

<F10> In the quarter ended December 31, 1996, Ethan Allen's revenues were derived from sales generated by its wholesale and retail operations.

<F11> Consists of \$1,420 of interest expense and \$136 of amortization of deferred costs during the quarter ended December 31, 1996.

<F12> Earnings per share for the quarter end December 31, 1996, was \$0.84. For information on Ethan Allen's earnings per share, see Ethan Allen's Consolidated Financial Statements for the quarter ended December 31, 1996.

<F13> Earnings per share on a fully diluted basis for the quarter ended December 31, 1996, were \$0.84.
</FN>

</TABLE>