

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTIONS 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2004

or

TRANSITION REPORT PURSUANT TO SECTIONS 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 1-11692

Ethan Allen Interiors Inc.

(Exact name of registrant as specified in its charter)

Delaware

06-1275288

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer ID No.)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

At March 31, 2004, there were 37,280,037 shares
of Common Stock, par value \$.01 outstanding.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(In thousands, except share data)

	March 31, 2004 (unaudited)	June 30 2003
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 177,018	\$ 81,856
Accounts receivable, less allowance for doubtful accounts of \$1,827 at March 31, 2004 and \$1,490 at June 30, 2003	26,257	26,439
Inventories, net (note 4)	185,794	198,212
Prepaid expenses and other current assets	30,608	30,779
Deferred income taxes	19,593	22,976
Total current assets	439,270	360,262
Property, plant and equipment, net	281,640	289,423
Intangible assets, net (notes 6 and 7)	79,099	78,939
Other assets	1,826	2,944
Total assets	\$ 801,835	\$ 731,568
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt and capital lease obligations	\$ 4,758	\$ 996
Customer deposits	61,622	55,939
Accounts payable	32,301	25,375
Accrued compensation and benefits	27,835	29,308
Accrued expenses and other current liabilities (note 5)	23,817	22,808
Total current liabilities	150,333	134,426
Long-term debt	4,525	9,222
Other long-term liabilities	1,817	2,682
Deferred income taxes	50,289	47,539
Total liabilities	206,964	193,869
Shareholders' equity:		
Class A common stock, par value \$.01, 150,000,000 shares authorized; 45,574,547 shares issued at March 31, 2004 and 45,449,086 shares issued at June 30, 2003	455	454

Class B common stock, par value \$.01, 600,000 shares authorized; no shares issued and outstanding at March 31, 2004 and June 30, 2003	-	-
Preferred stock, par value \$.01, 1,055,000 shares authorized; no shares issued and outstanding at March 31, 2004 and June 30, 2003	-	-
Additional paid-in capital	284,524	281,140
	<hr/>	<hr/>
	284,979	281,594
Less: Treasury stock (at cost), 8,294,510 shares at March 31, 2004 and 8,251,510 shares at June 30, 2003	(206,708)	(204,931)
Retained earnings	515,927	460,456
Accumulated other comprehensive income (note 10)	673	580
	<hr/>	<hr/>
Total shareholders' equity	594,871	537,699
	<hr/>	<hr/>
Total liabilities and shareholders' equity	\$ 801,835	\$ 731,568

See accompanying notes to consolidated financial statements.

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(Unaudited)

(In thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	March 31,		March 31	
	2004	2003	2004	2003
Net sales	\$ 244,592	\$ 224,574	\$ 708,507	\$ 670,816
Cost of sales	125,319	112,624	364,512	336,347
	<hr/>	<hr/>	<hr/>	<hr/>
Gross profit	119,273	111,950	343,995	334,469
Operating expenses:				
Selling	45,045	45,257	130,875	132,022
General and administrative	36,291	34,632	107,759	101,348
Restructuring and impairment charges (note 5)	-	13,223	(264)	13,131
	<hr/>	<hr/>	<hr/>	<hr/>
Total operating expenses	81,336	93,112	238,370	246,501
	<hr/>	<hr/>	<hr/>	<hr/>
Operating income	37,937	18,838	105,625	87,968
Interest and other miscellaneous income, net	223	58	3,171	707
Interest and other related financing costs	179	130	487	507
	<hr/>	<hr/>	<hr/>	<hr/>
Income before income taxes	37,981	18,766	108,309	88,168
Income tax expense	14,623	7,094	41,614	33,328
	<hr/>	<hr/>	<hr/>	<hr/>
Net income	\$ 23,358	\$ 11,672	\$ 66,695	\$ 54,840
	<hr/>	<hr/>	<hr/>	<hr/>
Per share data (note 9):				
Basic earnings per common share:				
Net income per basic share	\$ 0.63	\$ 0.31	\$ 1.79	\$ 1.45
	<hr/>	<hr/>	<hr/>	<hr/>
Basic weighted average common shares	37,300	37,560	37,265	37,771
Diluted earnings per common share:				
Net income per diluted share	\$ 0.61	\$ 0.30	\$ 1.74	\$ 1.42
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Diluted weighted average common shares	38,551	38,546	38,406	38,751

See accompanying notes to consolidated financial statements.

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Nine Months Ended	
	March 31,	
	2004	2003
Operating activities:		
Net income	\$ 66,695	\$ 54,840
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,755	15,861
Compensation expense (benefit) related to restricted stock award	238	(381)
Provision (benefit) for deferred income taxes	6,133	(3,246)
Restructuring and impairment charges (credits)	(264)	13,131
Other non-cash (income) expense	(1,436)	35
Change in assets and liabilities, net of the effects of acquired and divested businesses:		
Accounts receivable	182	2,900
Inventories	12,418	(12,251)
Prepaid and other current assets	1,963	(3,322)
Other assets	1,076	(45)
Customer deposits	5,683	7,460
Accounts payable	5,149	(5,133)
Income taxes payable	841	779
Accrued expenses and other current liabilities	(987)	2,913
Other long-term liabilities	(865)	450
Net cash provided by operating activities	112,581	73,991
Investing activities:		
Proceeds from the disposal of property, plant and equipment	5,796	2,528
Capital expenditures	(13,972)	(23,334)
Acquisitions	-	(10,880)
Other	(321)	207
Net cash used in investing activities	(8,497)	(31,479)
Financing activities:		
Payments on long-term debt and capital leases	(970)	(3,476)
Net proceeds from issuance of common stock	2,306	593
Dividends paid	(10,258)	(6,849)
Payments to acquire treasury stock	-	(48,281)
Net cash used in financing activities	(8,922)	(58,013)
Net increase (decrease) in cash and cash equivalents	95,162	(15,501)
Cash and cash equivalents - beginning of period	81,856	75,688
Cash and cash equivalents - end of period	\$ 177,018	\$ 60,187

See accompanying notes to consolidated financial statements.

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity
Nine Months Ended March 31, 2004
(Unaudited)
(In thousands, except share data)

	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance at June 30, 2003	\$ 454	\$ 281,140	\$ (204,931)	\$ 580	\$ 460,456	\$ 537,699
Issuance of 125,461 shares of common stock upon the exercise of stock options and restricted stock award compensation	1	2,543	—	—	—	2,544
Purchase of treasury stock	—	—	(1,777)	—	—	(1,777)
Tax benefit associated with the exercise of employee stock options	—	841	—	—	—	841
Dividends declared on common stock	—	—	—	—	(11,224)	(11,224)
Other comprehensive income (note 10)	—	—	—	93	—	93
Net income	—	—	—	—	66,695	66,695
Total comprehensive income						66,788
Balance at March 31, 2004	\$ 455	\$ 284,524	\$ (206,708)	\$ 673	\$ 515,927	\$ 594,871

See accompanying notes to consolidated financial statements.

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

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 of Ethan Allen's capital stock is owned by the Company. The Company has no assets or operating activities other than those associated with its investment in Ethan Allen.

(2) Interim Financial Presentation

All 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 consolidated financial statements. The results of operations for the three and nine months ended March 31, 2004 are not necessarily indicative of results that may be expected for the entire fiscal year. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended June 30, 2003.

Certain reclassifications have been made to prior year financial information in order to conform to the current year's presentation. These changes were made for disclosure purposes only and did not have an impact on previously reported results of operations or shareholders' equity.

(3) Employee Stock Plans

The Company's 1992 Stock Option Plan (the "Plan") is accounted for in accordance with the recognition and measurement provisions of Accounting Principles Board Opinion ("APB") No. 25, *Accounting for Stock Issued to Employees* and related interpretations, which employs the intrinsic value method of measuring compensation cost. Accordingly, compensation expense is not recognized for fixed stock options if the exercise price of the option equals the fair value of the underlying stock at the grant date. For certain stock-based awards, where the exercise price is equal to zero, the fair value of the award, measured at the grant date, is amortized to compensation expense on a straight-line basis over the vesting period. In addition, other stock-based award programs provided for under the Plan may also result in the recognition of compensation expense (benefit) to the extent they are deemed to be variable (as that term is defined in APB No. 25) in nature.

Statement of Financial Accounting Standards ("SFAS") No. 123, *Accounting for Stock-Based Compensation*, encourages recognition of the fair value of all stock-based awards on the date of grant as expense over the vesting period. However, as permitted by SFAS No. 123, the Company continues to apply the intrinsic value-based method of accounting prescribed by APB Opinion No. 25 and discloses certain pro-forma amounts as if the fair value approach of SFAS No. 123 had been applied.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of SFAS No. 123*, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this standard amended the disclosure requirements of SFAS No. 123 by requiring more prominent pro-forma disclosures in both the annual and interim financial statements, which are included in the following table.

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

The following table illustrates the effect on net income and net income per share as if the fair value recognition provisions of SFAS No. 123 had been applied to all outstanding and unvested awards in each period. The Company employs the Black-Scholes option-pricing model in estimating the fair value of stock options granted.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2004	2003	2004	2003
(in thousands, except per share data)				
Net income as reported	\$ 23,358	\$ 11,672	\$ 66,695	\$ 54,840
Add: Stock-based employee compensation expense (benefit) included in reported net income, net of related tax effects	42	11	147	(237)
Deduct: Stock-based employee compensation expense determined under the fair value-based method for all awards granted since July 1, 1995, net of related tax effects	(1,319)	(805)	(3,654)	(1,801)
Pro forma net income	\$ 22,081	\$ 10,878	\$ 63,187	\$ 52,802
Net income per share:				
Basic - as reported	\$ 0.63	\$ 0.31	\$ 1.79	\$ 1.45
Basic - pro forma	\$ 0.59	\$ 0.29	\$ 1.70	\$ 1.40
Diluted - as reported	\$ 0.61	\$ 0.30	\$ 1.74	\$ 1.42
Diluted - pro forma	\$ 0.58	\$ 0.28	\$ 1.66	\$ 1.37

(4) Inventories

Inventories at March 31, 2004 and June 30, 2003 are summarized as follows (in thousands):

	March 31, 2004	June 30, 2003
Finished goods	\$ 142,232	\$ 147,704
Work in process	11,905	15,333
Raw materials	31,657	35,175
	\$ 185,794	\$ 198,212

Inventories are presented net of a related valuation allowance of \$4.2 million at March 31, 2004 and \$4.7 million at June 30, 2003.

(5) Restructuring and Impairment Charges

In recent years, the Company has developed, announced and executed plans to consolidate its manufacturing operations as part of an overall strategy to maximize production efficiencies and maintain its competitive advantage.

In the third quarter of fiscal 2003, the Company announced a plan to close three of its smaller manufacturing facilities. Closure of these facilities resulted in a headcount reduction totaling approximately 580 employees; 340 employees effective April 21, 2003, and 240 employees throughout the last quarter of fiscal 2003 and the first quarter of fiscal 2004. A pre-tax restructuring and impairment charge of \$13.4 million was recorded for costs associated with these plant closings, of which \$4.5 million related to employee severance and benefits and other plant exit costs, and

\$8.9 million related to fixed asset impairment charges, primarily for real property and machinery and equipment associated with the closed facilities. During the quarter ended September 30, 2003, adjustments totaling \$0.2 million were recorded to reverse certain of these previously established accruals which were no longer required.

During fiscal 2002 and fiscal 2001, the Company recorded similar restructuring and impairment charges totaling \$12.0 million in connection with the closure of certain of its manufacturing facilities. Of this amount, \$5.3 million related to employee severance and benefits and other plant exit costs, and \$6.7 million related to fixed asset impairment charges. As of March 31, 2004, \$5.0 million of the previously-established restructuring reserves had been utilized and impairment charges of \$6.7 million had been recorded in operations. Adjustments totaling \$0.3 million were recorded during fiscal 2003 and the first quarter of fiscal 2004 to reverse the remaining accruals as they were no longer required.

At March 31, 2004, restructuring reserves totaling \$0.1 million related to the Company's fiscal 2003 plant closings remained and were included in the Consolidated Balance Sheets as an accrued expense within current liabilities. In addition, total impairment charges of \$8.9 million had been recorded to reduce certain property, plant and equipment to net realizable value.

Activity in the Company's fiscal 2003 restructuring reserve is summarized as follows (in thousands):

	Original Charges	Cash Payments	Non-cash Utilize	Balance at March 31, 2004
Employee severance and other related payroll and benefit costs	\$ 4,339	\$ (4,024)	\$ (227)(a)	\$ 88
Other plant exit costs	150	(150)	-	-
Write-down of long-lived assets	8,884	-	(8,884)	-
	<u>\$ 13,373</u>	<u>\$ (4,174)</u>	<u>\$ (9,111)</u>	<u>\$ 88</u>

(a) Amount represents the reversal of certain previously-established accruals which were no longer required.

On April 19, 2004, the Company announced a plan to close and consolidate two of its manufacturing facilities. Further discussion of this matter can be found in Note 12.

(6) Business Acquisitions

During the three months ended December 31, 2002, the Company acquired two Ethan Allen retail stores from independent dealers for total consideration of approximately \$0.9 million. As a result of these acquisitions, the Company (i) recorded additional inventory of \$0.8 million and other assets of \$0.3 million, and (ii) assumed customer deposits of \$0.8 million. Goodwill associated with these acquisitions totaled \$0.6 million and represents the premium paid to the sellers related to the acquired book of business (i.e. market presence) and other fair value adjustments to the assets acquired and liabilities assumed.

During the three months ended September 30, 2002, the Company acquired thirteen Ethan Allen retail stores from independent dealers for total consideration of approximately \$10.6 million. As a result of these acquisitions, the Company (i) recorded additional inventory of \$8.9 million and other assets of \$5.7 million, and (ii) assumed customer deposits of \$3.8 million, third-party debt of \$4.4 million and other liabilities of \$3.8 million. As of March 31, 2004, \$4.3 million of the third-party debt had been repaid by the Company. Goodwill associated with these

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

acquisitions totaled \$8.0 million and represents the premium paid to the sellers related to the acquired book of business (i.e. market presence) and other fair value adjustments to the assets acquired and liabilities assumed.

No acquisitions occurred during the three or nine months ended March 31, 2004. The Company did, however, acquire, in a transaction accounted for as a purchase business combination, the 25% minority interest in a joint venture previously established in 1998 between the Company and an independent dealer, the purpose of which was to own and operate four stores in the Dallas market. Subsequent to the Company's acquisition of the minority interest, the assets of one store were sold to the joint venture partner. Although the Company-owned store count at March 31, 2004 reflects the net addition of these three stores, the operations of such stores have been reflected in the Company's consolidated financial statements since inception of the joint venture as a result of the Company's 75% majority ownership. These stores were not, however, previously included in the Company-owned store count due to the fact that the stores were independently managed. Goodwill recorded in connection with the acquisition of the minority interest totaled less than \$0.1 million. Further discussion of the Company's intangible assets can be found in Note 7.

A summary of the Company's allocation of purchase price for the three and nine months ended March 31, 2004 and 2003 is provided below (in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2004	2003	2004	2003
Nature of acquisition	N/A	N/A	N/A	15 stores
Total consideration	\$ -	\$ -	\$ -	\$ 11,500
Assets acquired and liabilities assumed:				
Inventory	-	-	-	9,695
PP&E and other assets	-	-	-	6,016
Customer deposits	-	-	-	(4,668)

Third-party debt	–	–	–	(4,433)
A/P and other liabilities	–	–	–	(3,755)
Goodwill	\$ –	\$ –	\$ –	\$ 8,645

(7) Goodwill and Other Intangible Assets

On July 1, 2001, the Company adopted SFAS No. 142, *Goodwill and Other Intangible Assets*. As of March 31, 2004, the Company had goodwill, including product technology, (net of accumulated amortization) of \$59.4 million and other identifiable intangible assets (net of accumulated amortization) of \$19.7 million. Comparable balances as of June 30, 2003 were \$59.2 million and \$19.7 million, respectively.

Goodwill in the wholesale and retail segments was \$27.5 million and \$31.9 million, respectively, at March 31, 2004 and \$27.5 million and \$31.7 million, respectively, at June 30, 2003.

The wholesale segment, at both dates, includes additional intangible assets of \$19.7 million. These assets consist of Ethan Allen trade names that were formerly being amortized over 40 years. In connection with the adoption of Statement 142, the Company re-assessed the useful lives of goodwill and other intangible assets and both were determined to have indefinite useful lives. As such, amortization of these assets ceased on July 1, 2001. No impairment losses were recorded on these intangible assets as a result of the adoption of SFAS No. 142.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

(8) Litigation

The Company and its subsidiaries are subject to various environmental laws and regulations. Under these laws, the Company and/or its subsidiaries are, or may be, required to remove or mitigate the effects on the environment of the disposal or release of certain hazardous materials at various sites, including sites that have been designated as Superfund sites by the U.S. Environmental Protection Agency (“EPA”) pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (“CERCLA”), as amended, and which are included on the National Priority List (“NPL”).

As of March 31, 2004, the Company and/or its subsidiaries have received notices that they have been named as a potentially responsible party (“PRP”) with respect to the remediation of three sites currently listed or proposed for inclusion on the NPL under CERCLA. The sites are located in Lyndonville, Vermont; Southington, Connecticut; and High Point, North Carolina.

With respect to the Lyndonville, Vermont site, the Company believes it has resolved its liability by completing remedial action activities and continuing to work with the EPA to obtain a certificate of completion for construction. The Company does not anticipate incurring significant costs with respect to the Southington, Connecticut and High Point, North Carolina sites as it 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 those sites. Specifically, with regard to the Southington site, the Company’s volumetric share is less than 1% of over 51 million gallons disposed of at the site and there are more than 1,000 PRPs. With respect to the High Point site, the Company’s volumetric share is less than 1% of over 18 million gallons disposed of at the site and there are more than 2,000 PRPs, including 1,100 “de-minimis” parties (of which Ethan Allen is one). In both cases, the other PRPs consist of local, regional, national and multi-national companies.

Liability under CERCLA may be joint and several. As such, to the extent certain named PRPs are unable, or unwilling, to accept responsibility and pay their apportioned costs, the Company could be required to pay in excess of its pro rata share of incurred remediation costs. Management’s understanding of the financial strength of other PRPs has been considered, where appropriate, in the determination of the Company’s estimated liability. As of March 31, 2004, management believes that established reserves related to these environmental contingencies are adequate to cover probable and reasonably estimable costs associated with the remediation and restoration of these sites.

Additionally, the Company has been notified by the State of New York that it may be named a PRP in a separate, unrelated matter with respect to a site located in Carroll, New York. However, the EPA has not yet conducted its initial environmental study at this site so the extent of any adverse effect on the Company’s financial condition, results of operations, or cash flows with respect to this matter cannot be reasonably estimated at this time.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

(9) Earnings Per Share

Basic and diluted earnings per share are calculated using the following weighted average share data (in thousands):

	Three Months Ended March 31		Nine Months Ended March 31,	
	2004	2003	2004	2003
Weighted average common shares outstanding for basic calculation	37,300	37,560	37,265	37,771

Add: Dilutive effect of stock

options and warrants	1,251	986	1,141	980
Weighted average common shares outstanding, adjusted for diluted calculation	38,551	38,546	38,406	38,751

As of March 31, 2003, stock options to purchase 88,819 shares of common stock had exercise prices which exceeded the average market price of the Company's common stock for the corresponding period. These options have been excluded from the respective diluted earnings per share calculation as their impact is anti-dilutive. There were no anti-dilutive stock options outstanding as of March 31, 2004.

(10) Comprehensive Income

Total comprehensive income represents the sum of net income and items of "other comprehensive income or loss" that are reported directly in equity. Such items may include foreign currency translation adjustments, minimum pension liability adjustments, fair value adjustments on certain derivative instruments, and unrealized gains and losses on certain investments in debt and equity securities. The Company has reported its total comprehensive income in the Consolidated Statement of Shareholders' Equity.

The Company's other comprehensive income, which is attributable solely to foreign currency translation adjustments, was \$0.7 million at March 31, 2004 and \$0.6 million at June 30, 2003. This amount, as well as the Company's accumulated other comprehensive income included in equity, are the result of changes in foreign currency exchange rates related to the operations of 7 Ethan Allen-owned retail stores located in Canada. Foreign currency translation adjustments exclude income tax expense (benefit) given that the earnings of non-U.S. subsidiaries are deemed to be reinvested for an indefinite period of time.

(11) Segment Information

The Company's reportable segments are strategic business areas which operate separately but which both offer the Company's complete line of home furnishings through their own distinctive services. The Company's operations are classified into two segments: wholesale and retail.

The wholesale segment is principally involved in the development of the Ethan Allen brand, which encompasses the design, manufacture, domestic and off-shore sourcing, sale and distribution of a full range of home furnishing products to a network of independently-owned and Ethan Allen-owned stores as well as related marketing and brand awareness efforts. Wholesale profitability includes the wholesale gross margin, which is earned on wholesale sales to all retail stores, including Ethan Allen-owned stores.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

The retail segment sells home furnishings through a network of Ethan Allen-owned stores. Retail profitability includes the retail gross margin, which represents the difference between retail sales price and the cost of goods purchased from the wholesale segment.

While the manner in which the Company's home furnishings are marketed and sold is consistent, the nature of the underlying recorded sales (i.e. wholesale versus retail) and the specific services that each operating segment provides (i.e. wholesale manufacture and distribution versus retail sales) are different. Within the wholesale segment, the Company maintains revenue information according to each respective product line (i.e. case goods, upholstery, or home accessories and other).

A breakdown of wholesale sales by these product lines for the three and nine months ended March 31, 2004 and 2003 is provided below:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2004	2003	2004	2003
Case Goods	52%	53%	52%	53%
Upholstered Products	33	32	34	32
Home Accessories and Other	15	15	14	15
	100%	100%	100%	100%

Similar information by product line is not available within the retail segment as it is not practicable. However, because wholesale production and sales are matched, for the most part, to incoming orders, the Company believes that the allocation of retail sales would be similar to that of the wholesale segment.

The Company evaluates performance of the respective segments based upon revenues and operating income. Inter-segment eliminations result, primarily, from the wholesale sale of inventory between segments, including the related profit margin. Inter-segment eliminations also include items not allocated to reportable segments.

The following table presents segment information for the three and nine months ended March 31, 2004 and 2003 (in thousands):

Three Months Ended March 31,	Nine Months Ended March 31,
---	--

	2004	2003	2004	2003
Net Sales:				
Wholesale segment	\$ 178,894	\$ 173,890	\$ 501,517	\$ 490,098
Retail segment	144,068	127,328	426,335	387,101
Elimination of inter-company sales	(78,370)	(76,644)	(219,345)	(206,383)
Consolidated Total	\$ 244,592	\$ 224,574	\$ 708,507	\$ 670,816
Operating Income:				
Wholesale segment	\$ 34,106	\$ 20,949	\$ 91,324	\$ 77,930
Retail segment	3,982	2,223	10,204	13,326
Elimination (1)	(151)	(4,334)	4,097	(3,288)
Consolidated Total	\$ 37,937	\$ 18,838	\$ 105,625	\$ 87,968
Capital Expenditures:				
Wholesale segment	\$ 2,078	\$ 2,095	\$ 5,785	\$ 9,802
Retail segment	2,653	4,314	8,187	13,532
Acquisitions (2)	—	138	—	10,880
Consolidated Total	\$ 4,731	\$ 6,547	\$ 13,972	\$ 34,214

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

	March 31, 2004	June 30, 2003
Total Assets:		
Wholesale segment	\$ 538,454	\$ 465,017
Retail segment	296,524	303,061
Inventory profit elimination (3)	(33,143)	(36,510)
Consolidated Total	\$ 801,835	\$ 731,568

- (1) Adjustment represents the change in the elimination entry for profit in ending inventory.
- (2) There were no acquisitions completed during the three months ended March 31, 2004 or 2003. For the nine months ended March 31, 2003, acquisitions include the purchase of 15 retail stores. There were no acquisitions completed during the nine months ended March 31, 2004.
- (3) Inventory profit elimination reflects the embedded wholesale profit in the Ethan Allen-owned store inventory that has not been realized. These profits will be realized when inventory is shipped to the retail customer.

At March 31, 2004, there were 28 Ethan Allen retail stores located outside the United States, of which 21 were independently-owned. The Company's net sales for the three month and nine month periods ended March 31, 2004 and 2003 that were derived from sales to non-domestic, independently-owned retail stores totaled approximately 3% and 2%, respectively.

(12) Subsequent Events

Plant Closures

On April 19, 2004, the Company announced a plan to close and consolidate two of its manufacturing facilities. The plants, which are involved in the production of wood case goods furniture, are located in Boonville, New York and Bridgewater, Virginia. Management anticipates that most of the production from these plants will be absorbed by other Ethan Allen manufacturing facilities. The plant closures are expected to result in a headcount reduction totaling approximately 500 employees.

The Company will record a pre-tax restructuring and impairment charge of approximately \$12.5 to \$13.5 million (\$7.7 to \$8.3 million, after-tax) for costs associated with these plant closings, the majority of which are non-cash in nature and are related to fixed asset impairment charges, primarily for real property and machinery and equipment associated with the closed facilities. The balance of the charge is related to employee severance and benefits and other plant exit costs. Most of the earnings impact is expected to occur in the Company's fourth fiscal quarter ended June 30, 2004.

Stock Repurchases and Authorization

The Company has been authorized by its Board of Directors to repurchase its common stock from time to time, either directly or through agents, in the open market at prices and on terms satisfactory to the Company. As of March 31, 2004, the Company had a remaining Board authorization to purchase 1.2 million shares. During April 2004, the Company repurchased, in 8 separate transactions, an additional 316,545 shares of its common stock at a total cost of \$13,096,559, representing an average price per share of \$41.37. On April 27, 2004, the Board of Directors increased the remaining authorization of 904,755 shares to 2.5 million shares. All of the Company's common stock repurchases and retirements are recorded as treasury stock and result in a reduction of shareholders' equity.

Dividends

On April 27, 2004, the Board of Directors of the Company declared (i) a special one-time cash dividend of \$3.00 per share, payable on May 27, 2004 to shareholders of record as of May 10, 2004, and (ii) a regular quarterly cash dividend of \$0.10 per share, payable on July 26, 2004 to shareholders of record as of July 9, 2004.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The discussions set forth in this Form 10-Q should be read in conjunction with (i) the financial information included herein and (ii) the Company's Annual Report on Form 10-K for the year ended June 30, 2003. Management's discussion and analysis of financial condition and results of operations and other sections of this Quarterly Report contain forward-looking statements. Such forward-looking statements are identified by use of forward-looking words such as "anticipates", "believes", "plans", "estimates", "expects", and "intends" or words or phrases of similar expression. These forward-looking statements are subject to various assumptions, risks and uncertainties, including but not limited to: changes in political and economic conditions; changes in demand for the Company's products; acceptance of new products; changes in conditions in the various geographical markets where the Company does business; technology developments affecting the Company's products; changes in laws and regulations; and those matters discussed in the Company's filings with the Securities and Exchange Commission. Accordingly, actual circumstances and results could differ materially from those contemplated by the forward-looking statements.

Critical Accounting Policies

The Company's consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America which require, in some cases, that certain estimates and assumptions be made that affect the amounts and disclosures reported in those financial statements and the related accompanying notes. Estimates are based on currently known facts and circumstances, prior experience and other assumptions believed to be reasonable. Management uses its best judgment in valuing these estimates and may, as warranted, solicit external advice. Actual results could differ from these estimates, assumptions and judgments and these differences could be material. The following critical accounting policies, some of which are impacted significantly by estimates, assumptions and judgments, affect the Company's consolidated financial statements.

Retail Store Acquisitions — The Company accounts for the acquisition of retail stores and related assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 141, *Business Combinations*, which requires application of the purchase method for all business combinations initiated after June 30, 2001. Accounting for these transactions as purchase business combinations requires the allocation of purchase price paid to the assets acquired and liabilities assumed based on their fair values as of the date of the acquisition. The amount paid in excess of the fair value of net assets acquired is accounted for as goodwill.

Impairment of Long-Lived Assets and Goodwill — The Company periodically evaluates whether events or circumstances have occurred that indicate that long-lived assets may not be recoverable or that the remaining useful life may warrant revision. When such events or circumstances are present, the Company assesses the recoverability of long-lived assets by determining whether the carrying value will be recovered through the expected undiscounted future cash flows resulting from the use of the asset. In the event the sum of the expected undiscounted future cash flows is less than the carrying value of the asset, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. The long-term nature of these assets requires the estimation of its cash inflows and outflows several years into the future and only takes into consideration technological advances known at the time of the impairment test.

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, which was adopted by the Company on July 1, 2001, goodwill and other intangible assets are to be evaluated for impairment at the reporting unit level on an annual basis and between annual tests whenever events or circumstances indicate that the carrying value of a reporting unit may exceed its fair value. The Company conducts its required annual impairment test during the fourth quarter of each fiscal year. The impairment test uses a discounted cash flow model to estimate the fair value of a reporting unit. This model requires the use of long-term planning forecasts and assumptions regarding industry-specific economic conditions that are outside the control of the Company.

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Allowance for Doubtful Accounts — The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The allowance for doubtful accounts is based on a review of specifically identified accounts in addition to an overall aging analysis. Judgments are made with respect to the collectibility of accounts receivable based on historical experience and current economic trends. Actual losses could differ from those estimates.

Inventories — Inventories (finished goods, work in process and raw materials) are stated at the lower of cost, determined on a first-in, first-out basis, or market. Cost is determined based solely on those charges incurred in the acquisition and production of the related inventory (i.e. material, labor and manufacturing overhead costs). The Company estimates an inventory reserve for excess quantities and obsolete items based on specific identification and historical write-offs, taking into account future demand and market conditions. If actual demand or market conditions in the future are less favorable than those estimated, additional inventory write-downs may be required.

Revenue Recognition — Revenue is recognized when all of the following have occurred: persuasive evidence of a sales arrangement exists (e.g. a wholesale purchase order or retail sales invoice); the sales arrangement specifies a fixed or determinable sales price; product is shipped or services are provided to the customer; and collectability is reasonably assured. This generally occurs upon the shipment of goods to independent dealers or, in the case of Ethan Allen-owned retail stores, upon delivery to the customer. Recorded sales provide for estimated returns and allowances. The Company permits retail customers to return defective products and incorrect shipments, and terms offered by the Company are standard for the industry.

Business Insurance Reserves — The Company has insurance programs in place to cover workers' compensation and property/casualty claims. The insurance programs, which are funded through self-insured retention, are subject to various stop-loss limitations. The Company accrues estimated losses using actuarial models and assumptions based on historical loss experience. Although management believes that the insurance reserves are adequate, the reserve estimates are based on historical experience, which may not be indicative of current and future losses. In addition, the actuarial calculations used to estimate insurance reserves are based on numerous assumptions, some of which are subjective. The Company adjusts insurance reserves, as needed, in the event that future loss experience differs from historical loss patterns.

Other Loss Reserves — The Company has a number of other potential loss exposures incurred in the ordinary course of business such as environmental claims, product liability, litigation, restructuring charges, and the recoverability of deferred income tax benefits. Establishing loss reserves for these matters requires management's estimate and judgment with regard to maximum risk exposure and ultimate liability or realization. As a result, these estimates are often developed with the Company's counsel, or other appropriate advisors, and are based on management's current understanding of the underlying facts and circumstances. Because of uncertainties related to the ultimate outcome of these issues or the possibilities of changes in the underlying facts and circumstances, additional charges related to these issues could be required in the future.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Results of Operations

Ethan Allen's revenues are comprised of (i) wholesale sales to independently-owned and Company-owned retail stores and (ii) retail sales of Company-owned stores. See Note 11 to the Company's Consolidated Financial Statements for the three and nine months ended March 31, 2004 and 2003.

The components of consolidated revenues and operating income were as follows (in millions):

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2004	2003	2004	2003
Revenue:				
Wholesale segment	\$ 178.9	\$ 173.9	\$ 501.5	\$ 490.1
Retail segment	144.1	127.3	426.3	387.1
Elimination of inter-company sales	(78.4)	(76.6)	(219.3)	(206.4)
Consolidated Revenue	\$ 244.6	\$ 224.6	\$ 708.5	\$ 670.8
Operating Income:				
Wholesale segment	\$ 34.1	\$ 20.9	\$ 91.3	\$ 77.9
Retail segment	4.0	2.2	10.2	13.3
Elimination	(0.2)	(4.3)	4.1	(3.2)
Consolidated Operating Income	\$ 37.9	\$ 18.8	\$ 105.6	\$ 88.0

Quarter Ended March 31, 2004 Compared to Quarter Ended March 31, 2003

Consolidated revenue for the three months ended March 31, 2004 increased by \$20.0 million, or 8.9%, to \$244.6 million, from \$224.6 million for the three months ended March 31, 2003. Net sales for the period reflect the delivery of product associated with the increased level of booked orders and related backlog noted as of the end of the second quarter. Such order levels are reflective of (i) the continued expansion and strategic re-positioning of the Company's retail segment, and (ii) an increase in the incoming order rate resulting, primarily, from a sustained level of recovery in both consumer confidence and the U.S. economy in recent months, and the success of recent product introductions, some of which have been introduced in accordance with the Company's "everyday value" pricing strategy.

Total wholesale revenue for the third quarter of fiscal 2004 increased by \$5.0 million, or 2.9%, to \$178.9 million from \$173.9 million in the third quarter of fiscal 2003. As stated previously, the Company experienced an increase in the incoming order rate as a result, primarily, of improved consumer spending habits and a sustained strengthening of the U.S. economy during the period. In addition, wholesale revenue for the period reflects the positive impact of one additional shipping day in the current year quarter as compared to the prior year, and, to a lesser extent, deliveries associated with floor sample orders, placed during the second quarter of fiscal 2004, for new products introduced at the Company's October 2003 Retail conference. Partially offsetting these increases were lower than anticipated shipments stemming from (i) longer lead times necessary in the production of selected, recently-introduced case goods items, and (ii) modest delays in receiving certain upholstery-related import shipments (both finished goods and raw materials).

Total retail revenue from Ethan Allen-owned stores for the three months ended March 31, 2004 increased by \$16.7 million, or 13.1%, to \$144.1 million from \$127.4 million for the three months ended March 31, 2003. The increase in retail sales by Ethan Allen-owned stores was attributable to an increase in sales generated by newly opened (including relocations) or acquired stores of \$9.4 million, and an increase in comparable store delivered sales of \$11.6 million, or 9.7%, partially offset by a decrease resulting from closed stores, which generated \$4.3 million fewer sales in the third quarter of fiscal 2004 as compared to the same period in fiscal 2003. The number of Ethan Allen-owned stores increased to 124 as of March 31, 2004 as compared to 120 as of March 31, 2003. During that twelve month period, the Company acquired 1 store from an independent dealer, closed 2 stores and opened 2 new stores, both being dedicated Ethan Allen Kids retail

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store locations. The Company-owned store count at March 31, 2004 also reflects the net addition of 3 stores stemming from Ethan Allen's acquisition of the 25% minority interest in a joint venture previously established in 1998 between the Company and an independent dealer, the purpose of which was to own and operate 4 stores in the Dallas market. Subsequent to the Company's acquisition of the minority interest, the assets of 1 store were sold to the joint venture partner. While the operations of these stores have been reflected in the Company's consolidated financial statements since inception of the joint venture as a result of the Company's 75% majority ownership, the stores have not been previously included in the Company's store count due to the fact that they were independently managed.

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

Total booked orders, which include wholesale orders and written business of Ethan Allen-owned retail stores, increased 14.0% from the prior year quarter. Quarter-over-quarter, wholesale orders increased 13.6% while Ethan Allen-owned store written business increased 15.2% and comparable store written business increased 11.6%. These increases are indicative of the continued expansion of the Company's retail segment and a sustained level of recovery in both consumer confidence and the U.S. economy in recent months.

Gross profit increased during the quarter to \$119.3 million from \$112.0 million in the prior year comparable quarter. The \$7.3 million, or 6.5%, increase in gross profit was primarily attributable to a higher proportionate share of retail sales to total sales (59% in the current quarter compared to 57% in the prior year quarter), and an overall increase in sales volume as a result of the Company servicing the related backlog noted as of the end of the second quarter. These favorable variances were partially offset by increased costs associated with unabsorbed overhead at the Company's manufacturing facilities resulting, primarily, from excess capacity, particularly during the fourth quarter of fiscal 2003, and, to a lesser extent, a modest decline in retail gross profit as a result of the sell-off of floor inventory necessary to make room for new product offerings. Consolidated gross margin decreased to 48.8% in the third quarter of fiscal 2004 from 49.8% in the prior year quarter as a result, primarily, of the factors identified previously.

The Company recorded a pre-tax restructuring and impairment charge of \$13.4 million during the prior year quarter related to the consolidation of three of its smaller manufacturing facilities. The costs incurred in closing the facilities consisted, primarily, of employee severance and benefits and other plant exit costs, as well as fixed asset impairment charges, primarily for real property and machinery and equipment associated with the closed facilities. In addition, adjustments totaling \$0.2 million were made during the prior year quarter to reverse certain other restructuring accruals established in fiscal 2002 which were no longer required.

Including the March 2003 pre-tax restructuring and impairment charge of \$13.2 million, operating expenses decreased \$11.8 million, or 12.6%, to \$81.3 million, or 33.3% of net sales, in the current year quarter from \$93.1 million, or 41.5% of net sales, in the prior year quarter. This decrease is primarily attributable to the aforementioned restructuring and impairment charge and a decline in selling expenses within the wholesale division as the result of a continued Company-wide focus on cost containment, particularly within national television advertising, as well as initiatives undertaken in recent periods to streamline the Company's U.S. manufacturing operations. These decreases were partially offset by the continued growth of the retail segment and the higher proportionate share of retail sales to total sales in the current quarter as compared to the prior year quarter. This expansion has resulted in higher costs associated with designer salaries and commissions, occupancy, healthcare and other managerial salaries and benefits, delivery and warehousing, and advertising.

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Including the March 2003 pre-tax restructuring and impairment charge of \$13.2 million, operating income for the three months ended March 31, 2004 was \$37.9 million, or 15.5% of net sales, compared to \$18.8 million, or 8.4% of net sales, for the three months ended March 31, 2003. This represents an increase of \$19.1 million, and is primarily attributable to the aforementioned restructuring and impairment charge, an increase in sales volume and gross profit occurring during the current period, and lower operating expenses within the wholesale division, partially offset by increased costs related to continued expansion of the retail segment.

Including the March 2003 pre-tax restructuring and impairment charge of \$13.2 million, total wholesale operating income for the third quarter of fiscal 2004 was \$34.1 million, or 19.1% of net sales, as compared to \$20.9 million, or 12.0% of net sales, in the comparable prior year quarter. The increase of \$13.2 million, or 62.8%, is primarily attributable to the aforementioned restructuring and impairment charge and decreased operating expenses within the division, partially offset by increased costs associated with unabsorbed overhead at the Company's manufacturing facilities resulting, primarily, from excess capacity, particularly during the fourth quarter of fiscal 2003.

Operating income for the retail segment increased \$1.8 million to \$4.0 million, or 2.8% of net sales, for the third quarter of fiscal 2004, as compared to \$2.2 million, or 1.7% of net sales, in the prior year period. The increase in retail operating income generated by Ethan Allen-owned stores is primarily attributable to increased sales volume associated with newly-opened (including relocations) or acquired stores and an increase in comparable store sales, partially offset by (i) higher operating expenses related to the continued expansion of the retail network, and (ii) a modest decline in gross margin resulting from the sell-off of floor inventory necessary to make room for new product offerings.

Interest and other miscellaneous income for the current quarter totaled \$0.2 million, representing an increase of \$0.1 million from \$0.1 million recorded in the prior year quarter. The increase is due, primarily, to (i) increased interest income associated with higher cash balances during the period, and (ii) current period gains recorded in connection with the sale of real estate.

Income tax expense for the three months ended March 31, 2004 was \$14.6 million as compared to \$7.1 million for the three months ended March 31, 2003. The Company's effective tax rate for the current quarter was 38.5%, up from 37.8% in the prior year quarter. The higher effective tax rate is the result of recently-enacted changes within certain state tax legislation, and increased state income tax liability arising in connection with the operation of a greater number of Company-owned stores, some of which are located in new jurisdictions.

The Company recorded net income for the three months ended March 31, 2004 of \$23.4 million as compared to \$11.7 million recorded in the third quarter of fiscal 2003. Net income per diluted share for the current quarter amounted to \$0.61, up from \$0.30 per diluted share in the prior year quarter.

Nine Months Ended March 31, 2004 Compared to Nine Months Ended March 31, 2003

Consolidated revenue for the nine months ended March 31, 2004, increased by \$37.7 million, or 5.6%, to \$708.5 million, from \$670.8 million for the nine months ended March 31, 2003. Net sales have increased due to (i) the continued expansion and strategic re-positioning of the Company's retail segment and (ii) an increase in the incoming order rate as a result, primarily, of ongoing improvements in consumer confidence, a further strengthening of the U.S. economy during the period, and the success of recent product introductions, some of which have been introduced in accordance with the Company's "everyday value" pricing strategy.

Total wholesale revenue for the first nine months of fiscal 2004 increased by \$11.4 million, or 2.3%, to \$501.5 million from \$490.1 million in the prior year comparable period. As stated previously, the incoming order rate increased as a result, primarily, of improved consumer spending habits and a strengthening of the U.S. economy during the

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period. In addition, wholesale revenue for the period reflects deliveries associated with floor sample orders, placed during the first and second quarters of fiscal 2004, for new products introduced at the Company's June 2003 and October 2003 Retail conferences. Partially offsetting these increases were lower than anticipated shipments stemming from (i) longer lead times necessary in the production of selected, recently-introduced case goods items, and (ii) modest delays in receiving certain upholstery-related import shipments (both finished goods and raw materials).

Total retail revenue from Ethan Allen-owned stores for the nine months ended March 31, 2004, increased by \$39.2 million, or 10.1%, to \$426.3 million from \$387.1 million for the nine months ended March 31, 2003. The increase in retail sales by Ethan Allen-owned stores was attributable to an increase in sales generated by newly opened or acquired stores of \$37.5 million, and an increase in comparable store delivered sales of \$14.8 million, or 4.0%, partially offset by a decrease resulting from closed stores, which generated \$13.1 million fewer sales in the first nine months of fiscal 2004 as compared to the same period in fiscal 2003.

Total booked orders, which include wholesale orders and written business of Ethan Allen-owned retail stores, increased 8.2% from the prior year period. Year-over-year, wholesale orders increased 7.3% while Ethan Allen-owned store written business increased 10.6% and comparable store written business increased 4.4%. These increases are indicative of the continued expansion of the Company's retail segment, improvements in consumer confidence, and a further strengthening of the U.S. economy during the current period.

Gross profit increased during the nine month period to \$344.0 million from \$334.5 million in the prior year comparable period. The \$9.5 million, or 2.8%, increase in gross profit was primarily attributable to a higher proportionate share of retail sales to total sales (60% in the current period compared to 58% in the prior year), and an overall increase in sales volume during the period. These favorable variances were partially offset by increased costs associated with unabsorbed overhead at the Company's manufacturing facilities resulting, primarily, from excess capacity, particularly during the third and fourth quarters of fiscal 2003, and a modest decline in retail gross profit as a result of the sell-off of floor inventory necessary to make room for new product offerings. Consolidated gross margin for the nine months ended March 31, 2004 decreased to 48.6% from 49.9% in the prior year period as a result of the factors identified previously.

The Company recorded a pre-tax restructuring and impairment charge of \$13.4 million during the prior year quarter related to the consolidation of three of its smaller manufacturing facilities. The costs incurred in closing the facilities consisted, primarily, of employee severance and benefits and other plant exit costs, as well as fixed asset impairment charges, primarily for real property and machinery and equipment associated with the closed facilities. In addition, adjustments totaling \$0.2 million were made during the prior year quarter to reverse certain other restructuring accruals established in fiscal 2002 which were no longer required.

Including the March 2003 pre-tax restructuring and impairment charge of \$13.2 million, operating expenses decreased \$8.1 million, or 3.3%, to \$238.4 million, or 33.6% of net sales, in the current year period from \$246.5 million, or 36.7% of net sales, in the prior year period. This decrease is primarily attributable to the aforementioned restructuring and impairment charge and a decline in selling expenses within the wholesale division as the result of a continued Company-wide focus on cost containment, particularly within national television advertising, as well as initiatives undertaken in recent periods to streamline the Company's U.S. manufacturing operations. These decreases were partially offset by the continued growth of the retail segment and the higher proportionate share of retail sales to total sales in the current quarter as compared to the prior year quarter. This expansion has resulted in higher costs associated with designer salaries and commissions, occupancy, delivery and warehousing, advertising, and healthcare and other managerial salaries and benefits.

Including the March 2003 pre-tax restructuring and impairment charge of \$13.2 million, operating income for the nine months ended March 31, 2004 was \$105.6 million, or

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14.9% of net sales, compared to \$88.0 million, or 13.1% of net sales, for the nine months ended March 31, 2003. This represents an increase of \$17.6 million, or 20.1%, and is primarily attributable to the aforementioned restructuring and impairment charge, an increase in sales volume and gross profit occurring during the current period, and lower operating expenses within the wholesale division, partially offset by increased costs related to continued expansion of the retail segment.

Including the March 2003 pre-tax restructuring and impairment charge of \$13.2 million, total wholesale operating income for the nine months ended March 31, 2004 was \$91.3 million, or 18.2% of net sales, compared to \$77.9 million, or 15.9% of net sales, in the comparable prior year period. The increase of \$13.4 million, or 17.2%, is primarily attributable to the aforementioned restructuring and impairment charge and to decreased operating expenses within the division, partially offset by increased costs associated with unabsorbed overhead at the Company's manufacturing facilities resulting, primarily, from excess capacity, particularly during the third and fourth quarters of fiscal 2003.

Operating income for the retail segment decreased \$3.1 million to \$10.2 million, or 2.4% of net sales, for the current year period, as compared to \$13.3 million, or 3.4% of net sales, in the prior year period. The decrease in retail operating income generated by Ethan Allen-owned stores is primarily attributable to (i) higher operating expenses related to the continued expansion of the retail network, and (ii) a modest decline in gross margin resulting from the sell-off of floor inventory necessary to make room for the aforementioned new product offerings. These unfavorable variances were partially offset by increased sales volume associated with newly-opened (including relocations) or acquired stores and an increase in comparable store sales.

Interest and other miscellaneous income for the current nine month period totaled \$3.2 million, up from \$0.8 million in the prior year period. The increase of \$2.4 million is due, primarily, to (i) gains recorded in the current period in connection with the sale of real estate, (ii) a favorable judgment in the case of an outstanding legal matter, (iii) increased interest income associated with higher cash balances during the period, and (iv) a decrease in the Company's share of fiscal year-to-date losses incurred in connection with its United Kingdom joint venture with MFI Furniture Group Plc.

Income tax expense for the nine months ended March 31, 2004 was \$41.6 million as compared to \$33.3 million for the nine months ended March 31, 2003. The Company's effective tax rate for the current period was 38.4%, up from 37.8% in the prior year period. The higher effective tax rate is the result of recently-enacted changes within certain state tax legislation, and increased state income tax liability arising in connection with the operation of a greater number of Company-owned stores, some of which are located in new jurisdictions.

For the nine months ended March 31, 2004, the Company recorded net income of \$66.7 million, an increase of \$11.9 million, as compared to \$54.8 million recorded in the prior year comparable period. Net income per diluted share for the current period amounted to \$1.74, representing an increase of \$0.11 per diluted share, or 6.7%, from \$1.63 per diluted share in the prior year period.

Financial Condition and Liquidity

The Company's principal sources of liquidity include cash and cash equivalents, cash flow from operations, and borrowing capacity under a \$125.0 million revolving credit facility.

As of March 31, 2004, the Company maintained cash and short-term investments totaling \$177.0 million and outstanding long-term debt and capital lease obligations totaling \$9.3 million. The current and long-term portions of the Company's outstanding debt and capital lease obligations totaled \$4.8 million and \$4.5 million, respectively, at that date. The Company had no revolving loans outstanding under the credit facility as of March 31, 2004, and trade and standby letters of credit outstanding under the facility at that date totaled \$20.0 million. Remaining available borrowing capacity under the facility was \$105.0 million at March 31, 2004.

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Net cash provided by operating activities totaled \$112.6 million for the nine months ended March 31, 2004, compared to \$74.0 million for the nine months ended March 31, 2003. The year-over-year increase of \$38.6 million was principally the result of (i) changes in inventory levels, which decreased \$12.4 million during the current period, representing a \$24.7 million variance from the increase in inventory noted in the prior year period, (ii) an increase in net income of \$11.9 million, (iii) a \$10.3 million decrease in cash required to satisfy outstanding accounts payable, (iv) changes in the deferred tax balance of \$9.4 million, and (v) changes in prepaid expenses and other current assets representing a \$5.3 million variance from the prior year period. These favorable variances were partially offset by (i) the restructuring and impairment charge recorded during the prior year quarter (\$13.1 million), (ii) changes in accrued expenses and other current liabilities representing a \$5.2 million variance from the prior year period, (iii) a \$2.7 million decrease in cash collected related to outstanding accounts receivable, and (iv) a \$1.8 million decrease in customer deposits.

The decrease in inventory levels since June 2003 was the result, primarily, of (i) a decline in finished goods inventories attributable to the volume of deliveries occurring during the period and execution of the Company's plan to diminish inventory levels among certain discontinued product lines, and (ii) a decrease in plant inventories, namely raw materials and work-in-process, as a result of an increase in through-put and reduced inventory requirements stemming from the closure of three manufacturing facilities as was previously announced in March 2003.

Net cash used in investing activities totaled \$8.5 million in the current period as compared to \$31.5 million recorded in the prior year period. The decrease of \$23.0 million was due, primarily, to (i) a \$10.9 million decline in cash utilized to fund acquisition activity (no retail stores were acquired in the current period as compared to 15 retail stores acquired in the prior year period), (ii) a \$9.4 million decline in the other capital spending, exclusive of acquisitions, to \$14.0 million for the nine months ended March 31, 2004 from \$23.4 million for the nine months ended March 31, 2003, and (iii) a \$3.3 million increase in proceeds from the disposal of certain property, plant and equipment. The current level of capital spending is principally attributable to (i) new store development and renovation, (ii) technology improvements and (iii) manufacturing expansion within certain facilities. The Company anticipates that cash from operations will be sufficient to fund future capital expenditures.

Net cash used in financing activities totaled \$8.9 million in the current period as compared to \$58.0 million in the prior year period, a decrease of \$49.1 million. The decrease in net cash used in financing activities is the result, primarily, of (i) a decrease in payments related to the acquisition of treasury stock (\$48.3 million), and (ii) a decrease in cash utilized in the repayment of debt (\$2.5 million). These decreases were partially offset by a \$3.4 million increase in dividends paid.

On April 27, 2004, the Board of Directors of the Company declared (i) a special one-time cash dividend of \$3.00 per share, payable on May 27, 2004 to shareholders of record as of May 10, 2004, and (ii) a regular quarterly cash dividend of \$0.10 per share payable on July 26, 2004 to shareholders of record as of July 9, 2004.

In addition to using available cash to fund changes in working capital, necessary capital expenditures, acquisition activity, the repayment of debt, and the payment of dividends, the Company has been authorized by its Board of Directors to repurchase its common stock from time to time, either directly or through agents, in the open market at prices and on terms satisfactory to the Company. The Company also retires shares of unvested restricted stock and, prior to June 30, 2002, repurchased shares of common stock from terminated or retiring employee's accounts in the Ethan Allen Retirement Savings Plan. All of the Company's common stock repurchases and retirements are recorded as treasury stock and result in a reduction of shareholders' equity.

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During the first nine months of fiscal years 2004 and 2003, the Company repurchased the following shares of its common stock:

	Nine Months Ended	
	March 31,	
	2004⁽¹⁾	2003⁽²⁾
Common shares repurchased	43,000	1,400,200
Cost to repurchase common shares	\$ 1,776,618	\$ 41,806,266
Average price per share	\$ 41.32	\$ 29.86

(1) The cost to repurchase shares for the nine months ended March 31, 2004 reflects \$1,776,618 in common stock repurchases with a March 2004 trade date and an April 2004 settlement date.

(2) The cost to repurchase shares for the nine months ended March 31, 2003 reflects \$722,476 in common stock repurchases with a March 2003 trade date and an April 2003 settlement date. It excludes \$7,197,165 in common stock repurchases with a June 2002 trade date and a July 2002 settlement date.

The Company funded its common stock repurchases through available cash and cash from operations. As of March 31, 2004, the Company had a remaining Board authorization to purchase 1.2 million shares.

During April 2004, the Company repurchased, in 8 separate transactions, an additional 316,545 shares of its common stock at a total cost of \$13,096,559, representing an average price per share of \$41.37. On April 27, 2004, the Board of Directors increased the remaining authorization of 904,755 shares to 2.5 million shares.

As of March 31, 2004, the aggregate scheduled maturities of the Company's long-term debt for each of the next five fiscal years are as follows: \$4.7 million in fiscal 2005, \$0.2 million in fiscal 2006, \$0.1 million in fiscal 2007, \$0.1 million in fiscal 2008, \$0.1 million in fiscal 2009 and \$4.1 million thereafter. 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 anticipated cash requirements. As of March 31, 2004, the Company maintained working capital of \$288.9 million and a current ratio of 2.92 to 1.

Off-Balance Sheet Arrangements and Other Commitments, Contingencies and Contractual Obligations

Except as indicated below, the Company does not utilize or employ any off-balance sheet arrangements, including special-purpose entities, in operating its business. As such, the Company does not maintain any (i) retained or contingent interests, (ii) derivative instruments, or (iii) variable interests which could serve as a source of potential risk to its future liquidity, capital resources and results of operations.

The Company, or its consolidated subsidiaries, may, from time to time in the ordinary course of business, provide guarantees on behalf of selected affiliated entities or become contractually obligated to perform in accordance with the terms and conditions of certain business agreements. The nature and extent of these guarantees and obligations may vary based on the underlying relationship of the benefiting party to the Company and the business purpose for which the guarantee or obligation is being provided. Details of those arrangements for which the Company, or any of its wholly-owned subsidiaries, act as guarantor or obligor are provided below.

Dealer-Related Guarantees

As part of the Company's expansion strategy for the Ethan Allen retail store network, selected independent dealers are provided, on rare occasion, with financial guarantees relating to leases in connection with certain store locations. As of March 31, 2004, one such guarantee exists. This guarantee, which has been provided by Ethan Allen Inc. on behalf of an independent dealer, has a remaining term of six months, which generally represents the remaining contractual term of the underlying lease agreement (subject to certain term limitations). The Company is obligated to act under such guarantee in the event of default by the respective dealer (lessee). The maximum potential amount of future payments (undiscounted) that the Company could be required to make under this guarantee is limited to the amount of the remaining contractual lease payments

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(subject to certain term limitations) and, as such, is not an estimate of future cash flows. As of March 31, 2004, the amount of remaining contractual lease payments guaranteed by the Company was approximately \$0.2 million. The Company maintains specific recourse rights related to this dealer arrangement which are intended to enable recovery of any amount paid under this guarantee. Management expects, based on the underlying creditworthiness of the guaranteed party, this guarantee will expire without requiring funding by the Company. Accordingly, as of March 31, 2004, the carrying amount of the liability related to such guarantee is zero.

In addition, Ethan Allen Inc. has obligated itself, on behalf of one of its independent dealers, with respect to a \$1.5 million credit facility (the "Credit Facility") comprised of a \$1.1 million revolving line of credit and a \$0.4 million term loan. This obligation requires the Company, in the event of the dealer's default under the Credit Facility, to repurchase the dealer's inventory, applying such purchase price to the dealer's outstanding indebtedness under the Credit Facility. The Company's obligation remains in effect for the life of the term loan which expires in April 2008. The maximum potential amount of future payments (undiscounted) that the Company could be required to make under this obligation is limited to the amount outstanding under the Credit Facility at the time of default (subject to pre-determined lending limits based on the value of the underlying inventory) and, as such, is not an estimate of future cash flows. No specific recourse or collateral provisions exist that would enable recovery of any portion of amounts paid under this obligation, except to the extent that the Company maintains the right to take title to the repurchased inventory. Management anticipates that the repurchased inventory could subsequently be sold through the Company's retail store network. As of March 31, 2004, the total amount outstanding under the Credit Facility totaled approximately \$1.2 million, of which \$0.9 million was outstanding under the revolving credit line. Management expects, based on the underlying creditworthiness of the respective dealer, this obligation will expire without requiring funding by the Company. However, in accordance with the provisions of FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, a liability has been established to reflect the Company's non-contingent obligation under this arrangement as a result of modifications made to the Credit Facility subsequent to January 1, 2003. As of March 31, 2004, the carrying amount of such liability is less than \$50,000.

Indemnification Agreement

In connection with the Company's joint venture arrangement with United Kingdom-based MFI Furniture Group Plc., Ethan Allen Inc. has entered into a tax cross-indemnification agreement with the joint venture partner. The indemnification agreement stipulates that both parties agree to pay fifty percent of the amount of any tax liability arising as a result of (i) an adverse tax judgment or (ii) the imposition of additional taxes against either partner, and attributable to the operations of the joint venture. The indemnification agreement is effective until such time that the joint venture is terminated. At the present time, management anticipates that the joint venture will continue to operate for the foreseeable future.

The maximum potential amount of future payments (undiscounted) that the Company could be required to make under this indemnification agreement is indeterminable as no such tax liability currently exists. Further, the nature, extent and magnitude of any such tax liability arising in the future as a result of an adverse tax judgment or change in applicable tax law cannot be estimated with any reasonable certainty. It should be further noted that no recourse or collateral provisions exist that would enable recovery of any portion of amounts paid under this indemnification agreement. Management expects, based on its current understanding of the applicable tax laws and the existing legal structure of the joint venture, subject to future changes in applicable laws and regulations, this cross-indemnity agreement will expire without requiring funding by the Company. Accordingly, as of March 31, 2004, the carrying amount of the liability related to this indemnification agreement is zero.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Product Warranties

The Company's products, including its case goods, upholstery and home accents, generally carry explicit product warranties that extend from three to five years and are provided based on terms that are generally accepted in the industry. All of the Company's independent dealers are required to enter into, and perform in accordance with the terms and conditions of, a warranty service agreement. The Company records provisions for estimated warranty and other related costs at time of sale based on historical warranty loss experience and makes periodic adjustments to those provisions to reflect actual experience. On rare occasion, certain warranty and other related claims involve matters of dispute that ultimately are resolved by negotiation, arbitration or litigation. In certain cases, a material warranty issue may arise which is beyond the scope of the Company's historical experience. The Company provides for such warranty issues as they become known and estimable. It is reasonably possible that, from time to time, additional warranty and other related claims could arise from disputes or other matters beyond the scope of the Company's historical experience. As of March 31, 2004, the Company's product warranty liability totaled \$1.1 million.

Business Outlook

We believe the business outlook for our industry continues to show signs of improvement. Encouraging signs noted in recent periods which seemed to indicate some strengthening in consumer confidence appear to have been sustained in the current quarter. The U.S. economy appears to be benefiting from a stronger employment environment and historically low interest rates which, in turn, have led to a surge in refinancing activity and housing purchases. Recent comments by the Federal Reserve Board suggest a continued "patient" approach toward future interest rate increases. These factors seem to have had a positive effect on consumer spending habits which is reflected in the Company's incoming order trends. If these apparent signs of economic recovery continue, we believe the longer-term outlook is promising as well. As the economy strengthens, however, it is also possible that costs associated with production (including raw materials and labor), distribution (including freight and fuel charges), and retail operations (including compensation, delivery and warehousing, occupancy and advertising expenses) may increase. Similarly, an increase in interest rates could serve to adversely impact the level of discretionary spending on the part of consumers. We cannot reasonably predict when, or to what extent, events may occur which could impact the availability of such resources and/or their related cost to the Company.

We continue to believe that there is considerable interest on the part of consumers to invest in their homes. We also believe that this interest has, until recently, been restrained by such factors as high unemployment, sluggish consumer confidence levels and the fact that many home buyers stretched themselves financially to purchase as much house as possible in the current low rate environment. As the economy improves and this interest in home decorating continues to emerge, as we anticipate it will, we believe we will be well positioned to take advantage of the long-awaited increase in demand as a result of (i) our established brand, (ii) our comprehensive complement of home furnishing solutions, and (iii) our vertically-integrated business model.

In July 2003, The American Furniture Manufacturers Committee for Legal Trade (the "Committee") filed an anti-dumping petition with the U.S. Department of Commerce ("DOC") and the International Trade Commission ("ITC") seeking tariff protection on wooden bedroom furniture imported from China. In December 2003, the ITC ruled that the Committee's petition met the ITC's initial requirements resulting in a preliminary determination of injury and causing the DOC to move forward with a formal investigation of the matter. Should the DOC conclude that wooden bedroom furniture imported from China violates fair trade provisions, it could enforce the application of tariffs on such products. Initially, it was believed that tariffs, if imposed, could be in effect as early as April 2004. However, in early April 2004, the Committee requested, and was granted, a 50-day postponement of the DOC's final ruling. As such, a decision by the DOC with regard to the aforementioned matter is not expected until, at the earliest, June 2004. Accordingly, the amount of such tariffs is not reasonably estimable at this time.

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While Ethan Allen fully supports all efforts undertaken to ensure fair trade, the Company remained neutral with respect to the matter set forth in the Committee's petition. At the present time, sales of case goods represent approximately 52% of the Company's wholesale sales. Imported case goods, which include items in addition to wooden bedroom furniture and which are sourced from various locations, including China, represent only a portion of those case good sales. As such, we believe that tariffs, if any, imposed on wooden bedroom furniture imported from China, will not have a material effect on our consolidated results of operations.

On April 19, 2004, the Company, in an effort to absorb excess capacity and increase operating efficiencies, announced a plan to close and consolidate two of its manufacturing facilities. The plants, which are involved in the production of wood case goods furniture, are located in Boonville, New York and Bridgewater, Virginia. Management anticipates that most of the production from these plants will be absorbed by other Ethan Allen manufacturing facilities. The plant closures are expected to result in a headcount reduction totaling approximately 500 employees. The Company will record a pre-tax restructuring and impairment charge of approximately \$12.5 to \$13.5 million (\$7.7 to \$8.3 million, after-tax) for costs associated with these plant closings, the majority of which is non-cash in nature and is related to fixed asset impairment charges, primarily for real property and machinery and equipment associated with the closed facilities. The balance of the charge is related to employee severance and benefits and other plant exit costs. Most of the earnings impact is expected to occur in the Company's fourth fiscal quarter ended June 30, 2004. Ethan Allen has 12 remaining plant locations, including six wood case goods plants, five upholstery plants, and 1 accessory assembling plant. These facilities total nearly 4 million square feet and employ approximately 4,000 people.

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Item 3. Quantitative and Qualitative Disclosure About Market Risk

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

The Company has one debt instrument outstanding with a variable interest rate. This debt instrument has a principal balance of \$4.6 million and matures in 2004. Based on the principal balance outstanding during the period, a one-percentage point increase in the variable interest rate would not have had a significant impact on the Company's consolidated results of operations.

The Company's exposure to foreign currency exchange risk is primarily limited to its operation of seven Ethan Allen-owned retail stores located in Canada as substantially all purchases of imported parts and finished goods are denominated in United States dollars. As such, gains or losses resulting from market changes in the value of foreign currencies have not had, nor are they expected to have, a material effect on the Company's consolidated results of operations.

Currently, the Company does not enter into financial instrument transactions for trading or other speculative purposes or to manage interest rate or currency exposure.

Item 4. Controls and Procedures

Ethan Allen's management, including the Chairman of the Board and Chief Executive Officer ("CEO") and the Vice President-Finance ("VPF"), conducted an evaluation of the effectiveness of disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the CEO and VPF have concluded that, as of March 31, 2004, the Company's disclosure controls and procedures are effective in ensuring that material information relating to the Company (including its consolidated subsidiaries), which is required to be included in the Company's periodic filings under the Exchange Act, has been made known to them in a timely manner.

There have been no significant changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

There has been no material change to the matters discussed in Part I, Item 3 — Legal Proceedings in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 22, 2003.

Item 2. Changes in Securities, Use of Proceeds, and Issuer Purchases of Equity Securities

Certain information regarding purchases made by or on behalf of the Company or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended) of our common stock during the three months ended March 31, 2004 is provided below:

Period (a)	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (b)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (b)
March 31, 2004	43,000	\$41.32	43,000	1,221,300

(a) Purchases transacted during a single day of trading activity.

(b) On November 21, 2002, the Company's Board of Directors approved a share repurchase program authorizing the Company to repurchase up to 2,000,000 shares of its common stock from time to time, either directly or through agents, in the open market at prices and on terms satisfactory to the Company. During April 2004, the Company repurchased, in 8 separate transactions, an additional 316,545 shares of its common stock at a total cost of \$13,096,559, representing an average price per share of \$41.37. On April 27, 2004, the Board of Directors increased the remaining authorization of 904,755 shares to 2.5 million shares.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- * 31.1 Rule 13a-14(a) Certification of Principal Executive Officer
- * 31.2 Rule 13a-14(a) Certification of Principal Financial Officer
- * 32.1 Section 1350 Certification of Principal Executive Officer
- * 32.2 Section 1350 Certification of Principal Financial Officer
- * Filed herewith.

(b) Reports on Form 8-K

The Company furnished Current Reports on Form 8-K dated (i) February 27, 2004 covering information reported under Item 7 Financial Statements, Pro Forma Financial Information and Exhibits, and Item 9. Regulation FD Disclosure, and (ii) April 20, 2004, covering information reported under Item 12. Results of Operations and Financial Condition in accordance with SEC Release No. 33-8176.

The Company also filed a Current Report on Form 8-K dated April 19, 2004 covering information reported under Item 7 Financial Statements, Pro Forma Financial Information and Exhibits, and Item 9. Regulation FD Disclosure.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIESSIGNATURES

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

ETHAN ALLEN INTERIORS INC.

(Registrant)

Date: April 28, 2004

By: /s/ M. Farooq Kathwari

M. Farooq Kathwari
Chairman, President and
Chief Executive Officer
(Principal Executive Officer)

Date: April 28, 2004

By: /s/ Jeffrey Hoyt

Jeffrey Hoyt
Vice President, Finance
(Principal Financial Officer and
Principal Accounting Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AS REQUIRED BY SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, M. Farooq Kathwari, do hereby certify that:

- (1) I have reviewed this quarterly report on Form 10-Q as filed by Ethan Allen Interiors Inc. (the "Company");
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
- (4) The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting;
- (5) The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/s/ M. Farooq Kathwari

(M. Farooq Kathwari)

Chairman, President and
Chief Executive Officer

April 28, 2004

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER AS REQUIRED BY SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Jeffrey Hoyt, do hereby certify that:

- (1) I have reviewed this quarterly report on Form 10-Q as filed by Ethan Allen Interiors Inc. (the "Company");
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
- (4) The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting;
- (5) The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/s/ Jeffrey Hoyt

Vice President, Finance

(Jeffrey Hoyt)

April 28, 2004

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AS REQUIRED BY SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

I, M. Farooq Kathwari, hereby certify that the March 31, 2004 Quarterly Report on Form 10-Q as filed by Ethan Allen Interiors Inc. (the "Company"), which contains the Company's financial statements, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and that information contained in such quarterly report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ M. Farooq Kathwari

Chairman, President and
Chief Executive Officer

(M. Farooq Kathwari)

April 28, 2004

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER AS REQUIRED BY SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

I, Jeffrey Hoyt, hereby certify that the March 31, 2004 Quarterly Report on Form 10-Q as filed by Ethan Allen Interiors Inc. (the "Company"), which contains the Company's financial statements, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and that information contained in such quarterly report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jeffrey Hoyt

Vice President, Finance

(Jeffrey Hoyt)

April 28, 2004