

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington D.C. 20549

FORM 8-K

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

Date of Report (Date of earliest event reported): November 13, 2007

ETHAN ALLEN INTERIORS INC.
(Exact name of registrant as specified in its charter)

Delaware **1-11692** **06-1275288**
(State or other jurisdiction of (Commission File Number) (I.R.S. Employer Identification No.)
incorporation)

Ethan Allen Drive
Danbury, CT **06811**
(Address of principal executive offices) (Zip Code)

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

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

INFORMATION TO BE INCLUDED IN REPORT

SECTION 5 – CORPORATE GOVERNANCE AND MANAGEMENT

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On November 13, 2007, Ethan Allen Interiors Inc. (the "Company") entered into a new employment agreement (the "Employment Agreement") with M. Farooq Kathwari, the Company's current and continuing Chairman, President and Principal Executive Officer. The Employment Agreement replaces the 2002 employment agreement between the Company and Mr. Kathwari.

Pursuant to the Employment Agreement, Mr. Kathwari will continue to serve as Chairman, President and Principal Executive Officer of the Company and of Ethan Allen Global, Inc., our wholly-owned subsidiary, through July 1, 2012, with two automatic one-year renewals unless notice of non-renewal is given by either Mr. Kathwari or the Company not later than nine months prior to the relevant expiration date. Mr. Kathwari will continue to receive an annual base salary of \$1,127,500, subject to an annual increase each year based on the Company's operating margin (as defined in the Employment Agreement) for the prior fiscal year. Mr. Kathwari will be entitled to an annual incentive bonus each year based on the Company's prior fiscal year operating income. The provision providing for treating such bonus as a performance incentive payment was subject to the approval of our stockholders and was submitted to a vote of stockholders and approved at the annual meeting of stockholders held on November 13, 2007.

On October 10, 2007 Mr. Kathwari received options to purchase 150,000 shares of common stock at an exercise price of \$34.03 per share which vest at a rate of 50,000 shares on June 30 of each of 2008, 2009, and 2010 so long as Mr. Kathwari is employed by the Company on the relevant vesting date. Pursuant to the Employment Agreement, Mr. Kathwari will receive (i) on July 1, 2008 a grant of options to purchase 90,000 shares of common stock at an exercise price based on the closing price of the common stock on the New York

Stock Exchange on such date, which options will vest at a rate of 45,000 shares on June 30 of each of 2009 and 2010 so long as Mr. Kathwari is employed by the Company on the relevant vesting date, and (ii) on July 1, 2009 a grant of options to purchase 60,000 shares of common stock at an exercise price based on the closing price of the common stock on the New York Stock Exchange on such date, which options will vest on June 30, 2010 so long as Mr. Kathwari is employed by the Company on such vesting date. Pursuant to the Employment Agreement, on November 13, 2007 Mr. Kathwari received (i) a grant of 15,000 restricted shares which will vest at a rate of 3,000 shares per year over the initial five-year term of the Employment Agreement, and (ii) a grant of 20,000 restricted shares with an additional grant of 20,000 restricted shares to be made on July 1 of each of 2008 and 2009 so long as Mr. Kathwari is employed by the Company on the relevant grant date. The grants of 20,000 restricted shares will each vest on June 30 of each of 2010, 2011 and 2012, respectively, upon the attainment of certain performance targets so long as Mr. Kathwari is employed by the Company on the relevant vesting date. Any options or restricted shares which do not vest on the relevant date will be forfeited. If any dividends on the Company's common stock are declared and paid on or after a grant date for any restricted shares and prior to the relevant vesting date, an account established by the Company for the benefit of Mr. Kathwari will be credited with the amount of dividends which would otherwise have been paid with respect to such shares. Such amounts, together with interest thereon at 5% per annum, will be vested to Mr. Kathwari regardless of the subsequent vesting or forfeiture of the underlying shares, and will be paid to Mr. Kathwari as soon as practicable after the termination of his employment. All of the options and restricted shares will vest upon a change in control

of the Company or in the event that Mr. Kathwari's employment is terminated by the Company without "cause" or by Mr. Kathwari "for good reason."

Pursuant to the Employment Agreement, Mr. Kathwari will be entitled to severance and change in control benefits under certain circumstances.

A copy of the Employment Agreement is filed as Exhibit 10 (f) to this Form 8-K and is hereby incorporated by reference.

On November 13, 2007, the stockholders of the Company approved the Amended and Restated 1992 Stock Option Plan of the Company (the "Plan") at its annual meeting of stockholders. The Plan, as so amended, was previously approved by the Company's Board of Directors, subject to shareholder approval.

The Plan was amended to permit the grant of restricted shares of common stock and stock units relating to the common stock in addition to stock options. The maximum number of shares that may be issued under the Plan was not amended. The Plan, as amended and restated, became effective upon shareholder approval on November 13, 2007.

A copy of the Plan is filed as Exhibit 10(h) to this Form 8-K and is hereby incorporated by reference.

On November 13, 2007, the Compensation Committee of the Company approved a revised fee arrangement for independent Directors, providing (i) an annual retainer of \$35,000; (ii) an annual fee to the Chairman of the Audit Committee of \$10,000; (iii) an annual fee to the Chairmen of the Compensation Committee and the Nominations/ Corporate Governance Committee of \$8,000; (iv) payment of \$3,500 for each Board Meeting attended in person (\$1,000 if attended by telephone); and (v) an annual grant/payment (to be elected by each Director at the first Board Meeting held in each fiscal year) of: (a) a grant of options to purchase 3,000 shares of common stock pursuant to the Plan, which options vest ratably over a two (2) year term; (b) a grant of 1,000 shares of restricted stock, pursuant to the Plan, which restricted shares vest ratably over a three (3) year term; or (c) a \$25,000 cash payment.

Item 9.01. Financial Statements and Exhibits.

(c) *Exhibits.*

<u>Exhibit Number</u>	<u>Description</u>
10(f)	Amended and Restated 1992 Stock Option Plan of the Company
10(f)-1	Form of Restricted Stock Award for Employees
10(f)-2	Form of Restricted Stock Award for Outside Directors
10(h)	Employment Agreement between the Company and M. Farooq Kathwari dated November 13, 2007

SIGNATURES

caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ETHAN ALLEN INTERIORS INC.

Date: November 19, 2007

By: /s/ M. Farooq Kathwari
M. Farooq Kathwari
*Chairman, President and
Chief Executive Officer*

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
10(f)	Amended and Restated 1992 Stock Option Plan of the Company
10(f)-1	Form of Restricted Stock Award for Employees
10(f)-2	Form of Restricted Stock Award for Outside Directors
10(h)	Employment Agreement between the Company and M. Farooq Kathwari dated November 13, 2007

ETHAN ALLEN INTERIORS INC.
 AMENDED AND RESTATED 1992 STOCK OPTION PLAN
 (November 13, 2007)

1. Purpose. The purpose of this Ethan Allen Interiors Inc. 1992 Stock Option Plan (the "Plan") is to increase stockholder value, to advance the interests of Ethan Allen Interiors Inc. (the "Company"), its subsidiary, Ethan Allen Global, Inc. ("Ethan Allen") and its and Ethan Allen's other subsidiaries and affiliates (collectively, the "Subsidiaries"), to strengthen the Company's ability to attract and retain the services of experienced and knowledgeable independent directors to enhance the Company's, and its Subsidiaries' ability to attract, retain and motivate employees, and to provide such directors and employees with an opportunity to acquire an equity interest in the Company.

2. Administration.

2.1 Administration, Generally. Subject to the terms and conditions of the Plan, the Plan shall be administered by the Compensation Committee of the Company's Board of Directors, or by such other committee of the Board as the Board may determine (the "Committee").

2.2 Authority. Subject to the terms and conditions of the Plan, the Committee shall have the authority to (a) manage and control the operation of the Plan, (b) interpret and construe the provisions of the Plan or the provisions of any award under the Plan, and prescribe, amend and rescind rules and regulations relating to the Plan, (c) make awards under the Plan, in such forms and amounts and subject to such restrictions, limitations and conditions as it deems appropriate, including, without limitation, awards which are made in combination with or in tandem with other awards (whether or not contemporaneously granted), (d) modify the terms of, cancel and reissue, or repurchase outstanding awards, (e) prescribe the form of, agreement, certificate or other instrument evidencing any award under the Plan, (f) correct any defect or omission and reconcile any inconsistency in the Plan or in any award hereunder, and (g) make all other determinations and take all other actions as it deems necessary or desirable for the implementation and administration of the Plan; provided, however, that the Committee shall not have the authority to decrease the exercise price of outstanding Stock Options or SARs (repricing). Notwithstanding the foregoing provisions of this subsection 2.2, the Chief Executive Officer ("CEO") of the Company shall submit his recommendation for awards under the Plan to the Committee or, if no such Committee exists, to the Company's Board of Directors (the "Board"). The Committee, or the Board, if no such Committee shall exist, shall duly consider the recommendations of the CEO, and shall have the authority to accept, modify or reject the CEO's recommendation, or to request the CEO to reconsider such recommendation or to request the CEO to reconsider such recommendation. The determination of the Committee on matters within its authority shall be conclusive and binding on the Company and all other persons.

3. Participation. Subject to the terms and conditions of Section 2 and the remainder of the Plan, the Committee shall determine and designate from time to time the

directors of the Company and employees of the Company and its Subsidiaries who shall receive awards under the Plan ("Participants"). The granting of awards, if any, and the size of such awards are purely discretionary, and, no employee or director shall have any right or privilege to be considered as a Participant, and no Participant shall have any right or privilege, or be deemed to have an expectation of being, recommended for an award.

4. Shares Subject to the Plan.

4.1 Number of Shares Reserved. Shares of common stock, \$.01 par value, of the Company ("Common Stock") shall be available for awards under the Plan. To the extent provided by resolution of the Board, such shares may be uncertificated. Subject to adjustments in accordance with subsections 4.2 and 4.3 for events occurring after October 10, 2007, the aggregate number of shares of Common Stock available for awards under the Plan (including any Stock Options which are intended to be Incentive Stock Options) shall be equal to 6,487,867.

4.2 Reusage of Shares.

(a) In the event of the exercise or termination (by reason of forfeiture, expiration, cancellation, surrender or otherwise) of any award under the Plan, that number of shares of Common Stock that was subject to the award but not delivered shall again be available for awards under the Plan.

(b) Notwithstanding the provisions of paragraph (a), the following shares shall not be available for reissuance under the Plan: (i) shares which are withheld from any award or payment under the Plan to satisfy tax withholding obligations (as described in paragraph 8.5(e)); (ii) shares which are surrendered to fulfill tax obligations (as described in paragraph 8.5(e)); and (iii) shares which are surrendered in payment of the Option Price (as defined in subsection 6.1) upon the exercise of a Stock Option.

4.3 Adjustments to Shares Reserved. In the event of any merger, consolidation, reorganization, recapitalization, spinoff, split-up, stock dividend, stock split, reverse stock split, repurchase, exchange or other distribution with respect to shares of Common Stock or other change in the corporate structure or capitalization affecting the Common Stock, the type and number of shares of stock which are or may be subject to awards under the Plan and the terms of any outstanding awards (including the price at which shares of stock may be issued pursuant to an outstanding award) shall be equitably adjusted by the Committee, in its sole discretion, to preserve the value of benefits awarded or to be awarded to Participants under the Plan.

4.4 Individual Limits. The maximum number of shares of Common Stock that may be covered by Options and SARs granted to any one individual during any fiscal year of the Company shall be 500,000 shares (subject to adjustment in accordance with subsection 4.3). For Restricted Stock or Stock Unit awards that are intended to constitute "Performance-Based Compensation" within the meaning of section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), and regulations thereunder,

2

the maximum number of shares of Common Stock that may be delivered to any one individual with respect to such awards granted during any fiscal year of the Company shall be 500,000 shares (subject to adjustment in accordance with subsection 4.3).

5. Restricted Stock and Stock Units.

5.1 Awards. Subject to the terms and conditions of the Plan, there shall be designated the Participants to whom shares of Restricted Stock or Stock Units are to be awarded under the Plan, shall determine the number and terms of the shares of Restricted Stock to be awarded to each of them and, with respect to an award of a Stock Unit, the number of shares of Common Stock covered by the Stock Unit. For purposes of the Plan, "Restricted Stock" is a grant of Common Stock which Common Stock is subject to a risk of forfeiture or other restrictions that will lapse upon the achievement of one or more goals relating to completion of service by the Participant, or achievement of performance or other objectives, as determined by the Committee. For purposes of the Plan, a "Stock Unit" is a grant of a right to receive a share of Common Stock in the future upon the achievement of one or more goals relating to completion of service by the Participant, or achievement of performance or other objectives, as determined by the Committee.

5.2 Restrictions. Shares of Restricted Stock and Stock Units awarded under the Plan shall be subject to such conditions, restrictions and contingencies as the Committee shall determine, including provisions relating to dividend or dividend equivalent rights.

5.3 Performance-Based Compensation. The Committee may designate an award of Restricted Stock or a Stock Unit granted to any Participant as Performance-Based Compensation. To the extent required by section 162(m) of the Code, any award that is so designated shall be conditioned on the achievement of one or more performance targets as determined by the Committee. The performance targets established by the Committee may be with respect to corporate performance, operating group or sub-group performance, individual company performance, other group or individual performance, or division performance, and shall be based on one or more of the Performance Criteria (described in subsection 5.3). At the time of grant, the Committee shall designate whether an award of Restricted Stock or an award of a Stock Unit is intended to constitute Performance-Based Compensation.

5.4 Performance Criteria. For purposes of the Plan, "Performance Criteria" shall mean performance targets based on one or more of the following criteria: (a) earnings including operating income, earnings before or after taxes, earnings before or after interest, depreciation, amortization, or extraordinary or non-recurring items or book value per share (which may exclude nonrecurring items) or net earnings; (b) pre-tax income or after-tax income; (c) earnings per share (basic or diluted); (d) operating profit; (e) revenue, revenue growth or rate of revenue growth; (f) return on assets (gross or net), return on investment (including cash flow return on investment), return on capital (including return on total capital or return on invested capital), or return on equity; (g) returns on sales or revenues; (h) operating expenses; (i) stock price appreciation; (j) cash flow (before or after dividends), free cash flow, cash flow return on investment

3

(discounted or otherwise), net cash provided by operations, cash flow in excess of cost of capital or cash flow per share (before or after dividends); (k) implementation or completion of critical projects or processes; (l) economic value created; (m) cumulative earnings per share growth; (n) operating margin or profit margin; (o) stock price or total stockholder return; (p) cost targets, reductions and savings, productivity and efficiencies; (q) strategic business criteria, consisting of one or more objectives based on meeting specified market penetration, geographic business expansion, customer satisfaction, employee satisfaction, human resources management, supervision of litigation, information technology, and goals relating to acquisitions, divestitures, joint ventures and similar transactions, and budget comparisons; (r) personal professional objectives, including any of the foregoing performance targets, the implementation of policies and plans, the negotiation of transactions, the development of long term business goals, formation of joint ventures, research or development collaborations, and the completion of other corporate transactions; (s) funds from operations (FFO) or funds available for distribution (FAD); (t) economic value added (or an equivalent metric); (u) stock price performance; (v) improvement in or attainment of expense levels or working capital levels; or (w) any combination of, or a specified increase in, any of the foregoing. Where applicable, the performance targets may be expressed in terms of attaining a specified level of the particular criteria or the attainment of a percentage increase or decrease in the particular criteria, and may be applied to one or more of the Company, a Subsidiary or a division or strategic business unit of the Company, or may be applied to the performance of the Company relative to a market index, a group of other companies or a combination thereof, all as determined by the Committee. The performance targets may include a threshold level of performance below which no vesting will occur, levels of performance at which specified vesting will occur, and a maximum level of performance above which full vesting will occur. Each of the foregoing performance targets shall be determined in accordance with generally accepted accounting principles and shall be subject to certification by the Committee; provided that the Committee shall have the authority to exclude the impact of charges for restructurings, discontinued operations, extraordinary items and other unusual or non-recurring events and the cumulative effects of tax or accounting principles and identified in financial statements, notes to financial statements, management's discussion and analysis or other SEC filings.

6. Stock Options.

6.1 Awards. Subject to the terms and conditions of the Plan, there shall be designated the Participants to whom options to purchase shares of Common Stock ("Stock Options") are to be awarded under the Plan and shall determine the number, type and terms of the Stock Options to be awarded to each of them; provided however, that each Stock Option shall expire on the earlier of the date provided by the option terms or the date which is 10 years after the date of grant. The option price per share (the "Option Price") for any Stock Option awarded shall not be less than the greater of par value or the Fair Market Value of a share of Common Stock on the date the Stock Option is awarded. Each Stock Option awarded under the Plan shall be a "nonqualified stock option" for tax purposes unless the Stock Option satisfies all of the requirements of section 422 of the Code and the Committee designates such Stock Option as an Incentive Stock Option.

4

6.2 Manner of Exercise. A Stock Option may be exercised, in whole or in part, by giving written notice to the CEO (or his or her designee) prior to the date on which the Stock Option expires; provided, however, that a Stock Option may only be exercised with respect to whole shares of Common Stock. Such notice shall specify the number of shares of Common Stock to be purchased and shall be accompanied by payment of the Option Price for such shares in such form and manner as the Committee may from time to time approve.

7. Stock Appreciation Rights.

7.1 Awards. Subject to the terms and conditions of the Plan, there shall be designated the Participants to whom stock appreciation rights ("SARs") are to be awarded under the Plan and shall determine the number and terms of the SARs to be awarded to each of them; provided, however, that each SAR shall expire on the earlier of the date provided by the terms of the SAR or the date which is 10 years after the date of grant.

7.2 Payment. Subject to the terms and conditions of the Plan, upon exercise of an SAR, a Participant shall be entitled to receive that number of shares of Common Stock having a Fair Market Value (as of the date of exercise) equal to the product of:

- (a) the number of shares of Common Stock as to which the SAR is exercised; and
- (b) the excess of the Fair Market Value (as of the date of exercise) of a share of Common Stock over the exercise price of the SAR;

provided, however, that, in lieu of fractional shares of Common Stock, a Participant shall be entitled to receive an appropriate cash payment; and provided further that the Committee, in its sole discretion, may elect to settle the SAR (or any portion thereof) in cash equal to the Fair Market Value on the exercise date of any or all of the shares of Common Stock that would otherwise be issuable upon exercise.

7.3 Manner of Exercise. An SAR may be exercised, in whole or in part, by giving written notice to the CEO (or his or her designee) prior to the date on which the SAR expires. Such notice shall specify the number of shares with respect to which the SAR is exercised. As soon as practicable after receipt of such notice, the Company shall deliver to the Participant certificates for the shares of Common Stock or cash, or both, to which the Participant is entitled pursuant to subsection 7.2.

8. General.

8.1 Effective Date. The Plan shall be effective as of March 23, 1993.

8.2 Duration. The Plan shall be unlimited in duration and, in the event of Plan termination, shall remain in effect as long as any awards under it are outstanding; provided, however, that no awards may be granted under the Plan on any date after November 30, 2012.

5

8.3 Non-transferability of Awards; Other Agreements. Except as otherwise provided by the Committee, no award made under the Plan may be transferred, pledged or assigned by the holder thereof (except in the event of the holder's death, by will or the laws of descent and distribution) and the Company shall not be required to recognize any attempted assignment of such rights by any Participant. During a Participant's lifetime, awards may be exercised only by him or by his guardian or legal representative. Awards under the Plan, including any Stock Options, SARs, Restricted Stock, Stock Units and Common Stock issued in connection with Stock Options, SARs, Stock Units or otherwise, will also be subject to any other agreements entered into, from time to time, by the Participant and the Company.

8.4 Effect of Termination of Employment or Death. In the event that a Participant ceases to be an employee of the Company as a result of his or her death any Stock Options or SARs then outstanding may be exercised or shall expire 120 days thereafter, and therefore may be exercised by such Participant's estate within 120 days thereafter, unless otherwise provided in accordance with the terms of the award. In the event that a Participant, who is an employee, ceases to be an employee of the Company for any reason, other than death) any Stock Options or SARs then outstanding may be exercised or shall expire 90 days thereafter, and therefore may be exercised by such Participant within 90 days thereafter, unless otherwise provided in accordance with the terms of the award.

8.5 Compliance with Applicable Law and Withholding.

(a) Notwithstanding any other provision of the Plan, the Company shall have no obligation to issue any shares of Common Stock under the Plan if such issuance would violate any applicable law or any applicable regulation or requirement of any securities exchange or similar entity.

(b) Prior to the issuance of any shares of Common Stock under the Plan, the Company may require a written statement that the recipient is acquiring the shares for investment and not for the purpose or with the intention of distributing the shares and will not dispose of them in violation of the registration requirements of the Securities Act of 1933.

(c) With respect to any person who is subject to section 16(a) of the Exchange Act, the Committee may, at any time, add such conditions and limitations to any award under the Plan that it deems necessary or desirable to comply with the requirements of Rule 16b-3.

(d) If, at any time, the Company, in its sole discretion, determines that the listing, registration or qualification (or any updating of any such document) of any award, or the shares of Common Stock issuable pursuant thereto, is necessary on any securities exchange or under any federal or state securities or blue sky law, or that the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, any award or the issuance of shares of Common Stock pursuant to any award, such award shall not

6

be made and the shares of Common Stock shall not be issued or such restrictions shall not be removed, as the case may be, in whole or in part, unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company.

(e) All awards and payments under the Plan which are made to employees of the Company are subject to withholding of all applicable taxes and the Company shall have the right to withhold from any such award under the Plan or to collect as a condition of any payment under the Plan, as applicable, any taxes required by law to be withheld. To the extent provided by the Committee, a Participant may elect to have any distribution otherwise required to be made under the Plan to be withheld or to surrender to the Company shares of Common Stock already owned by the Participant to fulfill any tax withholding obligation.

8.6 No Continued Employment. The Plan does not constitute a contract of employment or continued service, and participation in the Plan will not give any employee or Participant the right to be retained in the employ of the Company or the right to continue as a director of the Company or any right or claim to any benefit under the Plan unless such right or claim has specifically accrued under the terms of the Plan or the terms of any award under the Plan.

8.7 Treatment as a Stockholder. Any award to a Participant under the Plan shall not create any rights in such Participant as a stockholder of the Company until shares of Common Stock are registered in the name of the Participant.

8.8 Amendment and Termination of the Plan. The Board may, at any time and in any manner, amend, alter, suspend, discontinue, or terminate the Plan or any award outstanding under the Plan; provided however, that no such amendment, alteration, suspension, discontinuance or termination shall:

(a) increase or decrease the number of shares reserved under subsection 4.1 without stockholder approval (other than increases or decreases resulting from the application of subsection 4.3);

(b) increase or decrease the individual limits under subsection 4.4 (other than increases or decreases resulting from the application of subsection 4.3) or the Performance Criteria set forth in subsection 5.4 without stockholder approval;

(c) be made without stockholder approval to the extent such approval is required by law, agreement or the rules of any exchange or automated quotation system upon which the Common Stock is listed or quoted;

(d) alter or impair the rights of Participants with respect to awards previously made under the Plan without the consent of the holder thereof; or

(e) make any change that would disqualify the Plan, intended to be so qualified, from the exemption provided by Rule 16b-3.

7

8.9 Immediate Acceleration of Incentives. Notwithstanding any provision in this Plan to the contrary or the normal terms of vesting under any award, all outstanding Stock Options and SARs will become immediately exercisable, all Stock Units shall be immediately vested and all outstanding shares of Restricted Stock will be immediately vested if a Change in Control occurs. For purposes of this Plan, a "Change in Control" shall have occurred if a Business Combination (as defined in Article Fifth of the

Company's Certificate of Incorporation) occurs and is consummated and the disinterested directors of the Company either do not approve such Business Combination in accordance with Article Fifth, or do approve such Business Combination and so authorize such immediate exercisability in connection with such Business Combination.

8.10 Definition of Fair Market Value. Except as otherwise determined by the Committee, the "Fair Market Value" of a share of Common Stock as of any date shall be equal to the closing sale price of a share of Common Stock as reported on The National Association of Securities Dealers' New York Stock Exchange Composite Reporting Tape (or if the Common Stock is not traded on the New York Stock Exchange, the closing sale price on the exchange on which it is traded or as reported by an applicable automated quotation system) (the "Composite Tape") on the applicable date or, if no sales of Common Stock are reported on such date, the closing sale price of a share of Common Stock on the date the Common Stock was last reported on the Composite Tape (or such other exchange or automated quotation system, if applicable).

8.11 Other Agreements. All Options, SARS, Restricted Stock, Stock Units and shares of Common Stock issued in respect thereof, will be subject to any other agreements, if any, between the Company and a Participant that is issued awards hereunder.

RESTRICTED STOCK AGREEMENT

THIS AGREEMENT, dated as of _____, 20__ (the "Agreement Date"), by and between Ethan Allen Interiors Inc. (the "Company") and _____ (the "Executive").

WITNESSETH THAT:

WHEREAS, the Company maintains the Ethan Allen Interiors Inc. 1992 Stock Option Plan (the "Plan"); and

WHEREAS, the Executive has been selected by the Compensation Committee of the Board of Directors of the Company (the "Committee") to receive an award under the Plan;

NOW THEREFORE, IT IS AGREED between the Company and the Executive as follows:

1. Award. The Executive is granted as of _____, 20__ (the "Grant Date"), _____ shares of common stock, par value \$.01 per share ("Common Stock") as of the Grant Date (all such shares, collectively, the "Restricted Stock").
2. Restrictions on Shares. During the Restricted Period (as described in paragraph 4):
 - (a) Shares of Restricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered.
 - (b) The certificate representing such shares shall be registered in the name of the Executive shall be deposited with the Company, together with a stock power (in such form as the Company may determine) and shall be imprinted with a legend as referred to in paragraph 4.
 - (c) Subject to paragraph (d) below, the Executive shall be treated as a stockholder with respect to shares of Restricted Stock, including the right to vote such shares; provided, however, the Executive shall not be entitled to vote shares of Restricted Stock with respect to record dates occurring on or after the date, if any, on which the Executive has forfeited such shares pursuant to paragraph 4.
 - (d) As of each dividend record date for Company Common Stock occurring on or after the date of grant of shares of Restricted Stock under this Agreement and prior to the date such shares become vested or are forfeited (i) no dividends shall be currently payable to the Executive with respect to such shares; and (ii) an account established by the Company for the benefit of the Executive shall be credited with the amount of dividends which would have been paid with respect to such shares in the absence of clause (i) above. Amounts credited to the account shall be credited with interest at the rate of 5% per year until distribution. The Executive shall be fully vested in all amounts credited to the account balance (regardless of the subsequent vesting or forfeiture of the shares). The balance credited to the Executive's account shall be distributed to the Executive in cash as soon as

practicable after the Executive's termination of employment with the Company and its affiliates for any reason.

3. Transfers at Termination of Restricted Period. At the end of the Restricted Period, the certificate representing such shares shall be transferred to the Executive (or the Executive's legal representative or heir) free of all legends and restrictions referred to in this Agreement.
4. Vesting and Forfeitures. **SHARES SHALL CEASE TO BE RESTRICTED STOCK AND SHALL BECOME VESTED IN ACCORDANCE WITH THE FOLLOWING SCHEDULE PROVIDED THE EXECUTIVE IS EMPLOYED BY THE COMPANY ON THE FOLLOWING VESTING DATES.**

[Time Vesting Alternative:]

Vesting Date	Number of Shares Becoming Vested
--------------	----------------------------------

[Performance Vesting Alternative:]

[Performance Measure]	Shares Vested on Such Vesting Date
-----------------------	------------------------------------

[Insert description/calculation of performance measure].

Any shares of Restricted Stock which do not vest on a Vesting Date shall be immediately forfeited by the Executive, and returned and released to the Company, and the Executive thereafter shall have no further rights with respect to such shares.

During the Restricted Period, all certificates evidencing the Restricted Stock will be imprinted with the following legend: "The securities evidenced by this certificate are subject to the transfer restrictions, forfeitures and other provisions of the Restricted Stock Agreement, dated as of _____ between Ethan Allen Interiors Inc. and _____."

5. Change in Control. Notwithstanding the provisions of paragraph 4, the Restricted Period for all shares of Restricted Stock will end not later than the date of a Change in Control, if the Executive is then employed by the Company and such shares were not previously forfeited in accordance with paragraph 4. For purposes of this Agreement, a "Change in Control" shall occur upon the occurrence of any of the following:
- (a) the Board or the shareholders of the Company or Ethan Allen Global, Inc., a Delaware corporation and a wholly owned subsidiary of the Company (the "Subsidiary"), either or both, as may be required to authorize the same, shall approve (i) any liquidation of the Company or the Subsidiary, or the sale of substantially all of the assets of the Company and the Subsidiary taken as a whole, or (ii) any merger, consolidation and/or other business combination involving the Company or the Subsidiary or any combination of any such transactions (a "Transaction"), other than a Transaction (A) involving only the Company and the Subsidiary, or (B) immediately after which the shareholders of the Company who were shareholders immediately prior to the transaction continue to own beneficially, directly or indirectly, in substantially similar proportions to those in effect immediately prior to such transaction more than 50% of the then outstanding voting securities of the Company or the survivor or any parent thereof, as applicable;
 - (b) any Person (as defined below) or group (as such term is defined in Rule 13d-5 of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) of related Persons (other than the Company, an employee benefit plan sponsored by the Company or the Subsidiary, or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportion as their ownership of the stock of the Company) shall beneficially own, directly or indirectly, more than 50% of the then outstanding voting stock of the Company or the Subsidiary (for purposes of this Agreement, "Person(s)" means any individual, entity, or other person, as defined in Section 3(a)(9) of the Exchange Act, and as used in Sections 13(d) and 14(d) thereof; or
 - (c) the Board or the Company shall authorize, approve or engage in any Business Combination with an Interested Person, each as defined in Article Fifth of the Company's Restated Certificate of Incorporation.
6. Adjustments to Number of Shares. Subject to the following provisions of this paragraph 6 in the event of any change in the outstanding shares of common stock of the Company by reason of any stock dividend, split, spinoff, recapitalization or other similar change, the terms and the number of shares of any outstanding Restricted Stock shall be equitably adjusted by the Company to the extent that such adjustment is necessary to preserve the benefit of this Agreement for the Executive and the Company.
7. Agreement Not Contract of Employment. This Agreement does not constitute a contract of employment, and does not give the Executive the right to be retained in the employ of the Company.

8. Successors and Assigns. This Agreement shall be binding upon, and inure to the benefit of, the Company and its successors and assigns, and upon any person acquiring, whether by merger, consolidation, purchase of assets or otherwise, all or substantially all of the Company's assets and business.
9. Applicable Law. The provisions of this Agreement shall be construed in accordance with the laws of the State of New York, without giving effect to choice of law principles. Notwithstanding any other provision of this Agreement to the contrary, the Company may subject shares of stock transferred pursuant to this Agreement to such conditions, limitations or restrictions as the Company determines to be necessary or desirable to comply with any applicable law or regulation.
10. Amendment. This Agreement may be amended by written agreement of the Executive and the Company, without the consent of any other person.
11. Plan Amendment. The Plan is hereby amended to permit the award set forth in this agreement, and the officers of the Company are authorized to modify the Plan language to reflect such amendment.

IN WITNESS WHEREOF, the Executive has hereunto set his hand and the Company has caused these presents to be executed in its name and on its behalf, all as of the Grant Date.

EXECUTIVE

ETHAN ALLEN INTERIORS INC.

By: _____

Name: _____

Title: _____

**DIRECTOR
RESTRICTED STOCK AGREEMENT**

THIS AGREEMENT, dated as of _____, 20__ (the "Agreement Date"), by and between Ethan Allen Interiors Inc. (the "Company") and _____ (the "Director").

WITNESSETH THAT:

WHEREAS, the Company maintains the Ethan Allen Interiors Inc. 1992 Stock Option Plan (the "Plan"); and

WHEREAS, the Director has been selected by the Compensation Committee of the Board of Directors of the Company (the "Committee") to receive an award under the Plan;

NOW THEREFORE, IT IS AGREED between the Company and the Director as follows:

1. Award. The Director is granted as of _____, 20__ (the "Grant Date"), _____ shares of common stock, par value \$.01 per share ("Common Stock"). All such shares, collectively, shall hereinafter be referred to as the "Restricted Stock".
2. Restrictions on Shares. During the Restricted Period (as described in paragraph 4):
 - (a) Shares of Restricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered.
 - (b) The certificate representing such shares shall be registered in the name of the Director shall be deposited with the Company, together with a stock power (in such form as the Company may determine) and shall be imprinted with a legend as referred to in paragraph 4.
 - (c) Rights as Stockholder. The Director will have none of the rights of a stockholder (i.e., the right to vote or receive dividends) with respect to the Restricted Stock unless and until the Restricted Stock has vested, subject to such requirements of transferability, custody and forfeiture consistent with those applicable to the underlying shares of Common Stock.
3. Transfers at Termination of Restricted Period. At the end of the Restricted Period, the certificate representing such shares shall be transferred to the Director (or the Director's legal representative or heir) free of all legends and restrictions referred to in this Agreement.
4. Vesting and Forfeitures. SHARES SHALL CEASE TO BE RESTRICTED STOCK AND SHALL BECOME VESTED IN ACCORDANCE WITH THE FOLLOWING SCHEDULE PROVIDED THE DIRECTOR IS PROVIDING SERVICES TO THE COMPANY ON THE FOLLOWING VESTING DATES:

Vesting Date	Number of Shares Becoming Vested
--------------	----------------------------------

Any shares of Restricted Stock that do not vest on a Vesting Date shall be immediately forfeited by the Director, and returned and released to the Company, and the Director thereafter shall have no further rights with respect to such shares.

Any shares of Restricted Stock that are not vested or forfeited on the date on which the Director ceases to serve in such capacity, other than by reason of the Director having been removed from such service in accordance with the By-Laws of the Company, shall vest on such date.

During the Restricted Period, all certificates evidencing the Restricted Stock will be imprinted with the following legend: "The securities evidenced by this certificate are subject to the transfer restrictions, forfeitures and other provisions of the Restricted Stock Agreement, dated as of _____ between Ethan Allen Interiors Inc. and _____."

5. Change in Control. Notwithstanding the provisions of paragraph 4, the Restricted Period for all shares of Restricted Stock will end not later than the date of a Change in Control, if the Director is then providing services to the Company and such shares were not previously forfeited in accordance with paragraph 4. For purposes of this Agreement, a "Change in Control" shall occur upon the occurrence of any of the following:
 - (a) the Board or the shareholders of the Company or Ethan Allen Global, Inc., a Delaware corporation and a wholly owned subsidiary of the Company (the "Subsidiary"), either or both, as may be required to authorize the same, shall approve (i) any liquidation of the Company or the Subsidiary, or the sale of substantially all of the assets of the Company and the Subsidiary taken as a whole, or (ii) any merger, consolidation and/or other business combination involving the Company or the Subsidiary or any combination of any such transactions (a "Transaction"), other than a Transaction (A) involving only the Company and the Subsidiary, or (B) immediately after which the shareholders of the Company who were shareholders immediately prior to the transaction continue to own beneficially, directly or indirectly, in substantially similar proportions to those in effect immediately prior to such transaction more than 50% of the then outstanding voting securities of the Company or the survivor or any parent thereof, as applicable;
 - (b) any Person (as defined below) or group (as such term is defined in Rule 13d-5 of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) of related Persons (other than the Company, an employee benefit plan sponsored by the Company or the Subsidiary, or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportion as their ownership of the stock of the Company) shall beneficially own, directly or indirectly, more than 50% of the then outstanding voting stock of the Company or the Subsidiary (for purposes of this Agreement, "Person(s)" means any individual, entity, or other person, as defined in Section 3(a)(9) of the Exchange Act, and as used in Sections 13(d) and 14(d) thereof; or

(c) the Board or the Company shall authorize, approve or engage in any Business Combination with an Interested Person, each as defined in Article Fifth of the Company's Restated Certificate of Incorporation.

6. Adjustments to Number of Shares. Subject to the following provisions of this paragraph 6 in the event of any change in the outstanding shares of common stock of the Company by reason of any stock dividend, split, spinoff, recapitalization or other similar change, the terms and the number of shares of any outstanding Restricted Stock shall be equitably adjusted by the Company to the extent that such adjustment is necessary to preserve the benefit of this Agreement for the Director and the Company.
7. Successors and Assigns. This Agreement shall be binding upon, and inure to the benefit of, the Company and its successors and assigns, and upon any person acquiring, whether by merger, consolidation, purchase of assets or otherwise, all or substantially all of the Company's assets and business.
8. Applicable Law. The provisions of this Agreement shall be construed in accordance with the laws of the State of New York, without giving effect to choice of law principles. Notwithstanding any other provision of this Agreement to the contrary, the Company may subject shares of stock transferred pursuant to this Agreement to such conditions, limitations or restrictions as the Company determines to be necessary or desirable to comply with any applicable law or regulation.
9. Amendment. This Agreement may be amended by written agreement of the Director and the Company, without the consent of any other person.

IN WITNESS WHEREOF, the Director has hereunto set his hand and the Company has caused these presents to be executed in its name and on its behalf, all as of the Grant Date.

DIRECTOR

ETHAN ALLEN INTERIORS INC.

By: _____

Name: _____

Title: _____

EMPLOYMENT AGREEMENT

This Agreement (this "Agreement"), dated as of November 13, 2007, and effective as of October 1, 2007, is made by and between Ethan Allen Interiors Inc., a Delaware corporation (the "Corporation") and its subsidiary, Ethan Allen Global, Inc., a Delaware corporation and a wholly owned subsidiary of the Corporation (the "Subsidiary") and M. Farooq Kathwari (the "Executive").

Recitals

1. The Executive is Chairman of the Board of Directors of the Corporation and of the Subsidiary, and is currently employed as the Chief Executive Officer and the President of the Corporation and the Subsidiary.
2. The employment of the Executive by the Corporation was previously subject to employment agreements dated July 27, 1994 (the "1994 Agreement"), October 28, 1997 (the "1997 Employment Agreement"), and is currently subject to an employment agreement dated August 1, 2002, as amended by the First Amendment dated as of November 1, 2002 and subject to the Assignment of Employment Agreement assigning the interests and obligations of Ethan Allen Retail Inc. (formerly known as Ethan Allen Inc.) to Ethan Allen Global, Inc. effective as of July 1, 2005 (collectively, the "2002 Agreement").
3. The Corporation desires to continue the services of the Executive as Chairman of the Board of Directors of the Corporation and the Subsidiary and the employment of the Executive with the Corporation and the Subsidiary and to enter into a new agreement embodying the terms of those continued relationships.
4. The Executive is willing to continue to serve as Chairman of the Board of Directors of the Corporation and the Subsidiary and is willing to accept continued employment by each of the Corporation and the Subsidiary on the terms set forth herein.

Agreement

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained, and other good and valuable consideration, the Corporation and the Executive hereby agree as follows.

1. **Definitions.**

- 1.1. "Affiliate" means any person or entity controlling, controlled by or under common control with the Corporation.
- 1.2. "Board" means the Board of Directors of the Corporation.
- 1.3. "Cause" means (a) the Executive is convicted of a felony involving actual dishonesty as against the Corporation or the Subsidiary, or (b) the Executive, in carrying out his duties and responsibilities under this Agreement, is guilty of gross neglect or gross misconduct resulting, in either case, in material economic harm to the Corporation and/or the Subsidiary, and such conduct is not cured within thirty (30) days of the Corporation providing written notice to Executive, unless such act, or failure to act, was believed by the Executive in good faith to be in the best interests of the Corporation and/or the Subsidiary. Actions taken, or failures to act, based upon advice of counsel or advice of certified public accountant(s) shall conclusively be presumed to be in good faith.
- 1.4. "Commencement Date" has the meaning assigned to it in Section 3.
- 1.5. "Date of Termination" means (a) in the case of a termination for which a Notice of Termination is required, the date of actual receipt of such Notice of Termination or, if later, the date specified therein, as the case may be, and (b) in all other cases, the actual date on which the Executive's employment terminates during the Term of Employment.
- 1.6. "Disability" means the Executive's inability to render, for a period of twelve (12) consecutive months, services hereunder by reason of permanent disability, as determined by the written medical opinion of an independent medical physician mutually acceptable to the Executive and the Corporation. If the Executive and the

[1]

Corporation cannot agree as to such an independent medical physician each shall appoint one medical physician and those two physicians shall appoint a third physician who shall make such determination.

1.7. "Good Reason" means and shall be deemed to exist if, without the prior express written consent of the Executive, (a) the Executive is assigned any duties or responsibilities inconsistent in any material respect with the scope of the duties or responsibilities associated with the Executive's titles or positions, as set forth and described in Section 4 of this Agreement; (b) the Executive suffers a reduction in the duties, responsibilities or effective authority associated with his titles and positions as set forth and described in Section 4 of this Agreement; (c) the Executive is not appointed to, or is removed from, the offices or positions provided for in Section 4.1 of this Agreement; (d) the Corporation fails to substantially perform any material term or provision of this Agreement; (e) the Executive's compensation provided for hereunder is decreased; (f) the Executive's office location is changed to a location more than 50 miles from its location on the date hereof in Danbury, Connecticut; (g) the Corporation fails to obtain the full assumption of this Agreement by a successor entity in accordance with Section 11.2 of this Agreement; (h) the Corporation continually fails to reimburse the Executive for business expenses in accordance with Section 5.3 of this Agreement; (i) the Corporation purports to terminate the Executive's employment for Cause and such purported termination of employment is not effected in accordance with the requirements of this Agreement; (j) the Executive shall cease to serve as a director and Chairman of the Board of Directors of any of the Corporation and the Subsidiary; (k) the Board or the shareholders of the Corporation or the Subsidiary, either or both, as may be required to authorize the same, shall approve (i) any liquidation of the Corporation or the Subsidiary, or the sale of substantially all of the assets of the Corporation and the Subsidiary taken as a whole, or (ii) any merger, consolidation and/or other business combination involving the Corporation or the Subsidiary or any combination of any such transactions (a "Transaction"), other than a Transaction (A) involving only the Corporation and the Subsidiary, or (B) immediately after which the shareholders of the Corporation who were shareholders immediately prior to the transaction continue to own beneficially, directly or indirectly, in substantially similar proportions to those in effect immediately prior to such transaction more than 50% of the then outstanding voting securities of the Corporation or the survivor, as applicable; (1) any Person (as defined below) or group (as such term is defined in Rule 13d-5 of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) of related Persons which is not an Affiliate of the Corporation or the Subsidiary as of the Commencement Date shall beneficially own, directly or indirectly, more than 50% of the then outstanding voting stock of the Corporation or the Subsidiary (for purposes of this Agreement, "Person(s)" means any individual, entity, or other person, as defined in Section 3(a)(9) of the Exchange Act, and as used in Sections 13(d) and 14(d) thereof); or (m) the Board or the Corporation shall authorize, approve or engage in any Business Combination with an Interested Person, each as defined in Article Fifth of the Corporation's Restated Certificate of Incorporation; provided that, notwithstanding the foregoing, Good Reason shall not include or be deemed to exist, with regard to the circumstances described in clause (k), (1) or (m), if, with the express prior written consent of Executive, Executive immediately after the occurrence of the circumstances or transactions described in clause (k), (1) or (m) becomes Chairman, Chief Executive Officer and President of the parent corporation or person that owns or controls the Corporation or its successor immediately after such circumstances or transaction. If, at the annual meeting in calendar year 2007 (including any adjournment thereof), the shareholders of the Corporation fail to approve the provisions of this Agreement which are contingent on shareholder approval pursuant to Section 5.2(a)(vi), and the Corporation fails to offer to the Executive, within 45 days following such annual meeting, an amendment of this Agreement which is acceptable to the Executive, then the Executive may resign at any time during the period between the 61st day following such annual meeting and the 150th day following such annual meeting, and such resignation shall be treated as having been for "Good Reason".

1.8. "Retirement" means the termination of the Executive's employment with the Corporation for any reason at any time after (a) the Executive attains age 70 or (b) the Executive meets the requirements for early or regular retirement under the Corporation's retirement policy, assuming for this purpose that he was a participant in such plan.

1.9. "Term of Employment" has the meaning assigned to it in Section 3.

2. Employment.

Subject to the terms and provisions set forth in this Agreement, the Corporation hereby employs the Executive during the Term of Employment as the Chief Executive Officer and President of the Corporation, agrees to use its best efforts to cause Executive to be elected by the Corporation's shareholders as a director and Chairman of the Board of the Corporation, and to cause the Executive to be a director and Chairman of the Board of Directors of the Subsidiary during

[2]

the Term of Employment and agrees to cause the Subsidiary at all times during the Term of Employment to employ the Executive as Chief Executive Officer and President of the Subsidiary, and the Executive hereby accepts such employment. However, nothing in this Agreement shall be construed to require that the Executive be elected as a director of the Corporation's Board of Directors on any date if he is not employed by the Corporation on the election date.

3. Commencement Date and Term of Employment.

3.1. The term of employment under this Agreement shall commence retroactively as of October 1, 2007 (the "Commencement Date"), and shall, unless extended as hereinafter provided, terminate June 30, 2012 (the "Term of Employment").

3.2. On July 1, 2012 and on July 1, 2013, the Term of Employment shall automatically be extended for an additional one year period unless, not later than nine months prior to any such anniversary, either party to this Agreement shall have given written notice to the other that the Term of Employment shall not be extended or further extended beyond its then already automatically extended term, if any.

4. Positions, Responsibilities and Duties.

- 4.1. Positions. During the Term of Employment, the Executive shall be employed as, and the Corporation shall at all times cause the Executive to be, the Chief Executive Officer and President of the Corporation and the Subsidiary. In addition to such positions, the Corporation shall use its best efforts to ensure that the Executive is elected by the shareholders of the Corporation to serve as a director of the Corporation during the Term of Employment for a minimum of two successive, staggered three-year terms, as provided in the Corporation's Certificate of Incorporation, and shall use its best efforts to ensure that Executive is the Chairman of the Board of Directors. In such positions, the Executive shall have the duties, responsibilities and authority normally associated with the office and position of chairman, director, chief executive officer and president of a substantial, publicly traded corporation, but in no event shall the Executive's duties, responsibilities and/or effective authority with respect to the Corporation and/or the Subsidiary be less than the duties, responsibilities and effective authority the Executive possessed immediately prior to the date of this Agreement. No other employee of the Corporation or the Subsidiary shall have authority and responsibilities that are equal to or greater than those of the Executive. The Executive shall report solely and directly to the Board and all other officers and other employees of the Subsidiary shall report directly to the Executive or the Executive's designees. No provision of this Section 4.1, however, shall preclude the Board from soliciting information from any officer or employee of the Corporation.
- 4.2. Duties. During the Term of Employment, the Executive shall devote such time as is reasonably necessary to perform the duties associated with his offices and positions as set forth in Section 4.1 and shall use his best efforts to perform faithfully and efficiently the duties and responsibilities contemplated by this Agreement; provided, however, that the Executive shall not be required to perform any duties and responsibilities which would be likely to result in non-compliance with or violation or breach of any applicable law or regulation. Notwithstanding the foregoing provisions of this Section 4.2, during the Term of Employment, the Executive may devote reasonable time to activities other than those required under this Agreement, including the supervision of his personal investments, and activities involving professional, charitable, educational, religious and similar types of organizations, speaking engagements, membership on the boards of directors of other organizations, and similar type activities, to the extent that such other activities do not inhibit or prohibit the performance of the Executive's duties under this Agreement, or conflict in any material way with the business of the Corporation or the Subsidiary; provided, however, that the Executive shall not serve on the board of any business, or hold any other position with any business without the consent of the Board.
- 4.3. Non-Disparagement. The Executive agrees that, while he is employed by the Corporation, and after his Date of Termination, he shall not make any false, defamatory or disparaging statements about the Corporation, the Subsidiary, any Affiliate, or the officers or directors of the Corporation, the Subsidiary or any Affiliate that are reasonably likely to cause material damage to the Corporation, the Subsidiary, any Affiliate, or the officers or directors of the Corporation, the Subsidiary, or the Affiliates. While the Executive is employed by the Corporation, and after his Date of Termination, the Corporation agrees, on behalf of itself, the Subsidiary and the Affiliates, that neither the Corporation, the Subsidiary, the Affiliates, nor the officers or directors of the Corporation, the Subsidiary, or any of the Affiliates shall make any false, defamatory or disparaging statements about the Executive that are reasonably likely to cause material damage to the Executive.

[3]

5. Compensation and Other Benefits.

- 5.1. Base Salary. During the Term of Employment and prior to July 1, 2008, the Executive shall receive a base salary ("Base Salary"), payable in equal bi-weekly installments, of \$1,127,500 per annum. On each July 1 thereafter, Executive shall receive an increase (but in no event any decrease) to such Base Salary based on the Company's Operating Income (as defined Section 5.2(a)(iii) below) divided by reported sales ("Operating Margin"), for the most recently ended fiscal year according to the following formula:

Annual Percentage Increase to Base Salary	Operating Margin
0%	Less than 10%
2%	≥ 10% but < 11%
4%	≥ 11% but < 13%
5%	≥ 13%

Any increase to Base Salary shall then constitute the "Base Salary" for purposes of this Agreement.

- 5.2. During the Term of Employment, the Executive will be entitled to be paid the following incentive compensation:

- (a) Annual Incentive Bonus. The Executive will be entitled to be paid an annual incentive bonus (the "Incentive Bonus") as described in this Section 5.2(a).
- (i) The annual Incentive Bonus for a particular fiscal year will be based upon the amount by which the Company's Operating Income for the fiscal year (defined below) exceeds the applicable Threshold Amount specified below, except that the Incentive Bonus for fiscal year 2008 shall be based upon the Company's Operating Income during the period beginning October 1, 2007 and ending June 30, 2008.

Fiscal Year	Threshold
2008	\$75 Million
2009	\$105 Million
2010	\$110 Million
2011	\$115 Million
2012	\$120 Million
2013	\$125 Million
2014	\$130 Million

- (ii) The amount of the Incentive Bonus payment will be equal to
- (A) 1.25% of the first \$20 million (or portion thereof) by which the Operating Income exceeds the applicable Threshold;
 - (B) 2.25% of the second \$20 million (or portion thereof) by which the Operating Income exceeds the applicable Threshold;
 - (C) 2.75% of the third \$20 million (or portion thereof) by which the Operating Income exceeds the applicable Threshold, and
 - (D) 3.25% of any amount greater than \$60 million by which the Operating Income exceeds the applicable Threshold.
- (iii) The Corporation's Operating Income for each fiscal year shall be as set forth in the Corporation's financial statements, adjusted by adding thereto the charges, expenses or accruals, if any, charged against such operating income for (1) non-recurring or extraordinary items, (2) Incentive Bonuses under this Agreement, (3) the issuance to the Corporation's executives, managers, employees, dealers and other business associates of capital stock of the Corporation, or the issuance or exercise to or by such persons of options, warrants or other

[4]

rights to acquire capital stock of the Corporation, or stock appreciation rights of the Corporation or similar equity equivalents, including in respect of the Restricted Stock Agreement and the Stock Option Agreements contemplated by this Agreement, and (4) any increased depreciation, amortization or other charges resulting from purchase accounting adjustments (provided, however, that no such adjustments shall be made under this clause (iii) with respect to acquisitions occurring prior to the Commencement Date). The calculation of Operating Income will be confirmed by the Corporation's independent public accountants or any other independent, recognized financial or accounting expert retained by the Compensation Committee.

- (iv) Notwithstanding the foregoing provisions of this Section 5.2(a), if the Corporation effects a major acquisition during any fiscal year, the Executive and the Corporation shall negotiate in good faith an appropriate revision to the Threshold Amount set forth in this Section 5.2(a) to implement the purpose of the Incentive Bonus.
 - (v) The Incentive Bonus in respect of any particular fiscal year will be paid upon the earlier to occur of the fifth business day following public filing or disclosure of the Corporation's financial statements for such fiscal year or the 120th day following the end of such fiscal year.
 - (vi) Notwithstanding the foregoing provisions of this Section 5.2(a), the Executive's right to any Incentive Bonus amounts under this Agreement for fiscal years beginning on or after the Commencement Date shall be contingent on the Incentive Bonus payments being approved by the shareholders of the Corporation at the Corporation's annual shareholder meeting in calendar year 2007 (including any adjournment thereof); provided, however, that if such Incentive Bonus arrangement is not so approved, the Corporation will offer other additional compensation to the Executive that provides an earnings opportunity that is comparable to that offered by the Incentive Bonus, and the Corporation and the Executive shall negotiate in good faith regarding the structure of such additional compensation and the revisions to this Agreement reflecting such compensation. The failure of the Corporation to offer such replacement compensation within 45 days following the shareholder's vote of non-approval of the Incentive Bonus shall be treated as a decrease in the Executive's compensation under Section 1.7(e).
- (b) Restricted Stock Awards. The Executive shall be awarded shares of the Corporation's common stock, par value \$.01 per share ("Common Stock") as restricted stock under the Corporation's 1992 Stock Option Plan (as amended from time to time in accordance with its terms, the "Stock Option Plan") and subject to the terms of the restricted stock agreements in substantially the form of Exhibit A hereto. Such shares are referred to as "Restricted Stock" for purposes of this Agreement.

- (i) The Executive will receive 20,000 shares of Restricted Stock as of the date the shareholders approve the incentive compensation components of this Agreement (the "Approval Date"), and will receive an additional 20,000 shares of Restricted Stock on each of July 1, 2008 and July 1, 2009.
 - (ii) The Executive will receive an additional 15,000 shares of Restricted Stock as of the date the shareholders approve the amendment to the Stock Option Plan.
 - (iii) Each award of Restricted Stock will be subject to the Executive's execution and delivery of the Restricted Stock Agreements in substantially the form of Exhibit A hereto (as amended from time to time in accordance with its terms) which agreements shall include the requirements for vesting of each award of Restricted Stock.
- (c) Stock Options. The Executive shall be granted options to purchase shares of the Company's Common Stock under the Stock Option Plan and subject to the terms of the stock option agreements in substantially the form of Exhibit B hereto. Such stock options are referred to as "Options " for purposes of this Agreement.

[5]

- (i) As of October 10, 2007, the Executive shall be granted Options to purchase 150,000 shares of Common Stock; as of July 1, 2008, the Executive shall be granted Options to purchase 90,000 shares of Common Stock; and as of July 1, 2009, the Executive shall be granted Options to purchase 60,000 shares of Common Stock.
- (ii) Each grant of Options will be subject to the Executive's execution and delivery of the Stock Option Agreements in substantially the form of Exhibit B hereto (as amended from time to time in accordance with its terms) which agreements shall include the requirements for vesting of each grant of Options.
- (iii) Each Stock Option Agreement shall provide that the Executive may transfer all or part of the Options to a family trust or to immediate family members that is considered to be related to the Executive for purposes of Treasury Regulation section 1.83-7(a).
- (iv) The number of shares subject to any stock awards under this Agreement is specified as of October 10, 2007, and such numbers are to be adjusted for stock splits, stock dividends, reclassifications, recapitalizations and similar events in respect of the Common Stock occurring after that date.

5.3. Expense Reimbursement. During the Term of Employment, the Executive shall be entitled to receive prompt reimbursement for all usual, customary, and reasonable business-related expenses incurred by the Executive in performing his duties and responsibilities hereunder in accordance with the practices and procedures of the Corporation as in effect and applied immediately prior to the Commencement Date, including without limitation an automobile and driver allowance and/or reimbursement in accordance with past practices, or, if more favorable to the Executive, as provided by the Corporation or the subsidiary at any time thereafter. Up to 10% of the use of the Company-provided automobile may be for personal use.

5.4. Vacation and Fringe Benefits.

- (a) During the Term of Employment, the Corporation shall maintain a life and disability insurance in respect of the Executive for the benefit of Executive and/or his estate, and shall maintain such insurance so long as the Executive remains a senior executive officer of the Corporation. The aggregate amount of such insurance coverage shall be determined by the premium cost; the Corporation shall pay an aggregate annual premium of \$50,000 for such coverage. The Executive agrees to cooperate with the Corporation in obtaining such policies and in maintaining the same in full force and effect throughout the Term of Employment.
- (b) During the Term of Employment, the Executive shall also be entitled to such paid vacation, fringe benefits and perquisites as provided to the Executive by the Corporation and/or the Subsidiary immediately prior to the Commencement Date or, if more favorable to the Executive, as provided by the Corporation or the Subsidiary at any time thereafter.
- (c) To the extent that the Executive's rights to compensation or benefits under the applicable plan, agreement or other governing document are to be determined based on the Term of Employment under the Prior Employment Agreement, the Term of Employment under this Agreement shall be deemed to be substituted for the Term of Employment under the Prior Employment Agreement.

5.5. Office and Support Staff. Unless the Executive otherwise agrees in writing, during the Term of Employment the Executive shall be entitled to executive secretarial and other administrative assistance of a type and extent, and to an office or offices (with furnishings and other appointments) of a type and size, at least equal to that provided to the Executive immediately prior to the date of this Agreement.

6. Termination.

6.1. Termination Due to Death or Disability. The Corporation may terminate the Executive's employment hereunder due to Disability. In the event of the Executive's death or a Termination of the Executive's employment by the Corporation due to Disability, the Executive, his estate or his legal representative, as the case may be, shall be entitled to receive:

[6]

- (a) Base Salary continuation at the rate in effect (as provided for by Section 5.1 of this Agreement) on the Date of Termination through the end of the full fiscal year in which the Date of Termination occurs;
- (b) an Incentive Bonus in respect of the full fiscal year in which the Date of Termination occurs;
- (c) any deferred compensation not yet paid to the Executive (including, without limitation, interest or other credits on such deferred amounts), any accrued vacation pay and insurance proceeds;
- (d) reimbursement for expenses incurred but not yet paid prior to such death or Disability;
- (e) insurance policy payments or proceeds in respect of the life and Disability insurance referred to in Section 5.4(a); and
- (f) any other compensation or benefits which may be owed or provided to the Executive in accordance with the terms and provisions of any applicable agreements, plans and programs of or made by the Corporation and/or the Subsidiary.

Anything in this Agreement to the contrary notwithstanding, (x) in the event of the termination of the Executive's employment pursuant to this Section 6.1, the Corporation will not, from and after the Date of Termination, be obligated to issue any Restricted Stock or Options, but any vesting or service requirements under any outstanding Options or Restricted Stock granted to the Executive prior to his termination of employment that are associated with the Executive's employment by the Corporation (and any Prior Options, Prior Restricted Stock, and Prior Stock Units, as those terms are defined in Section 12.8) will be deemed to be fully satisfied upon such termination, and (y) the Executive's family shall be entitled to receive benefits at least equal to the most favorable benefits provided by the Corporation to surviving families of employees of the Corporation under such plans, programs, practices and policies relating to family death benefits, if any, in accordance with the most favorable plans, programs, practices and policies of the Corporation in effect on the date of the Executive's death with respect to other key employees of the Corporation and their families. Anything in this Agreement to the contrary notwithstanding, the Executive shall be entitled after the Date of Termination due to Disability to receive disability and other benefits at least equal to the most favorable of those provided by the Corporation to disabled employees and/or their families in accordance with such plans, programs, practices and policies relating to disability, if any, in effect at any time during the 90-day period immediately preceding the Date of Termination due to Disability with respect to other key employees of the Corporation and their families.

6.2. Termination by the Corporation for Cause. The Corporation may terminate the Executive's employment hereunder for Cause as provided in this Section 6.2. If the Corporation terminates the Executive's employment hereunder for Cause, the Executive shall be entitled to receive:

- (a) Base Salary at the rate in effect (as provided for by Section 5.1 of this Agreement) at the time of such termination through the Date of Termination;
- (b) a prorated Incentive Bonus in respect of the fiscal year in which the Date of Termination occurs, equal to such Incentive Bonus multiplied by a fraction, the numerator of which is the number of days in the current fiscal year through the Date of Termination, and the denominator of which is 365;
- (c) any deferred compensation (including, without limitation, interest or other credits on such deferred amounts) and any accrued vacation pay;
- (d) reimbursement for expenses incurred, but not yet paid prior to such termination of employment; and
- (e) any other compensation or benefits which may be owed or provided to the Executive in accordance with the terms and provisions of any applicable agreements, plans and programs of or made by the Corporation and/or the Subsidiary.

In any case described in this Section 6.2, the Executive shall be given written notice authorized by a vote of at least a majority of the members of the Board that the Corporation intends to terminate the Executive's employment for Cause. Such written notice, given in accordance with Section 6.7 of this Agreement, shall specify the particular act or acts, or failure to act, which is or are the basis for the decision to so terminate the

[7]

Executive's employment for Cause. The Executive shall be given the opportunity within 30 calendar days of the receipt of such notice to meet with the Board to defend such act or acts, or failure to act, and, if

such act or failure to act is correctable, the Executive shall be given 30 business days after such meeting to correct such act or failure to act. If such act or failure to act is not correctable or upon failure of the Executive, within such latter 30 day period, to correct such act or failure to act, the Executive's employment by the Corporation shall automatically be terminated under this Section 6.2 for Cause as of the date determined in Section 1.5 of this Agreement. Anything herein to the contrary notwithstanding, if, following a termination of the Executive's employment by the Corporation for Cause based upon the conviction of the Executive for a felony involving actual dishonesty as against the Corporation or the Subsidiary, such conviction is overturned on appeal, the Executive shall be entitled to the payments and benefits that the Executive would have received as a result of a termination of the Executive's employment by the Corporation without Cause. Anything in this Agreement to the contrary notwithstanding, in the event of the termination of the Executive's employment pursuant to this Section 6.2, the Corporation will not, from and after the Date of Termination, be obligated to issue any Restricted Stock or Options, although any outstanding Restricted Stock or Options will not be affected thereby, except as expressly provided in the Restricted Stock Agreement and the Option Agreements.

6.3. Termination Without Cause or Termination For Good Reason. The Corporation shall be permitted to terminate the Executive's employment hereunder without Cause and the Executive shall be permitted to terminate his employment hereunder for Good Reason. For purposes of this Agreement, such a termination of employment by the Executive shall constitute a "Termination for Good Reason" only if affected in accordance with the notice provisions of Section 6.7(b). If the Corporation terminates the Executive's employment hereunder without Cause, other than due to death or Disability, or if the Executive effects a Termination for Good Reason, the Executive shall be entitled to receive:

- (a) Base Salary at the rate in effect (as provided for by Section 5.1 of this Agreement) on the Date of Termination through the end of the Term of Employment (which Term of Employment shall include extensions thereof in accordance with Section 3 only to the extent that the deadline for canceling the extension or extensions occurred prior to the date on which the applicable written termination notice was provided, with no cancellation of extension notice filed in accordance with Section 3(b));
- (b) an aggregate amount equal to the two largest Incentive Bonuses or other annual bonuses previously received by Executive from the Corporation not to exceed \$2 million in the aggregate;
- (c) any deferred compensation (including, without limitation, interest or other credits on the deferred amounts) and any accrued vacation pay;
- (d) reimbursement for expenses incurred, but not paid prior to such termination of employment; and
- (e) any other compensation or benefits which may be owed or provided to the Executive in accordance with the terms and provisions of any applicable agreements, plans and programs of or made by the Corporation and/or the Subsidiary.

Anything in this Agreement to the contrary notwithstanding, in the event of the termination of Executive's employment pursuant to this Section 6.3, (x) the Corporation's obligation to issue Restricted Stock under this Agreement and in accordance with the Restricted Stock Agreement will not be terminated or otherwise affected, as if the Term of Employment continued without giving effect to such termination, and any vesting or service requirements under any outstanding Restricted Stock granted to the Executive prior to, at the time of, or after his termination of employment that are associated with the Executive's employment by the Corporation (and any Prior Restricted Stock and Prior Stock Units) will be deemed to be fully satisfied upon such termination or, if later, at the time of grant, and (y) any vesting or service requirements under any outstanding Options granted to the Executive prior to his termination of employment or any Options granted on or after his Date of Termination, that are associated with the Executive's employment by the Corporation (and any Prior Options) will be deemed to be fully satisfied upon such termination or if later, at the time such option is granted, and the options issued to and exercisable by Executive will be exercisable at any time during the three years following such Date of Termination or, for Options granted as of a date after the Date of Termination, three years following the date of grant.

[8]

Anything in this Agreement to the contrary notwithstanding, if the Executive is employed by the Corporation through the end of the Term of Employment, and his employment terminates by reason of a failure to extend the Term of Employment (regardless of whether such failure to extend occurs by reason of a notice from either the Executive or the Corporation that the Agreement will not be extended in accordance with Section 3(b) or by reason of a failure of the parties to further extend the Agreement following the end of the Term of Employment as set forth in Section 3), the Executive shall be treated as having completed any service required for full vesting under any outstanding Options, Restricted Stock, Prior Options, Prior Restricted Stock, Prior Stock Units, as well as any other compensation accrued prior to the termination of employment if the right to such compensation is contingent on completion of service for vesting. Nothing in the preceding sentence shall be construed to require the vesting in compensation for the Executive if the written terms of the compensation provide for a different vesting schedule and such compensation is not required to be provided by this Agreement, the 2002 Agreement, the 1997 Agreement, or the 1994 Agreement.

6.4. Voluntary Termination. The Executive may affect a Voluntary Termination of his employment hereunder. A "Voluntary Termination" shall mean a termination of employment upon prior written notice to the Corporation in accordance with Section 6.7(c) by the Executive on his own initiative other than (a) a termination due to Disability, or (b) a Termination for Good Reason. A Voluntary Termination shall not be, nor shall it be deemed to be, a breach of this Agreement and shall entitle the Executive to all of the rights and benefits to which the Executive would be entitled in the event of a termination of his employment by the Corporation for Cause.

6.5. Termination Due to Retirement. The Executive may terminate his employment hereunder as a result of Retirement. If the Executive's employment hereunder is terminated due to Retirement, the Executive shall be entitled to receive:

- (a) Base Salary at the rate in effect (as provided for by Section 5.1 of this Agreement) at the time of such termination through the date of Retirement;
- (b) a prorated Incentive Bonus in respect of the fiscal year in which the Date of Termination occurs, equal to such Incentive Bonus multiplied by a fraction, the numerator of which is the number of days in the current fiscal year through the Date of Termination, and the denominator of which is 365;
- (c) any deferred compensation not yet paid to the Executive (including, without limitation, any interest on credits on such deferred amounts) and any accrued vacation pay;
- (d) reimbursement for expenses incurred but not yet paid prior to the date of Retirement; and
- (e) any other compensation or benefits which may be owed or provided to the Executive in accordance with the terms and provisions of any applicable agreements, plans and programs of or made by the Corporation and/or the Subsidiary.

Anything in this Agreement to the contrary notwithstanding, in the event of the termination of the Executive's employment pursuant to this Section 6.5, the Corporation will not, from and after the Date of Termination, be obligated to issue any Restricted Stock or Options, although any outstanding Restricted Stock or Options will not be affected thereby, except as expressly provided in the Restricted Stock Agreement and the Option Agreements.

6.6. No Mitigation; No Offset. In the event of any termination of employment under this Section 6, the Executive shall be under no obligation to seek other employment and there shall be no offset against any amounts due the Executive under this Agreement on account of any remuneration attributable to any subsequent employment that the Executive may obtain. Any amounts due under this Section 6 are in the nature of severance payments, or liquidated damages, or both, and are not in the nature of a penalty.

6.7. Notice of Termination. Any termination of the Executive's employment by the Corporation for Cause, any Termination for Good Reason, and any termination of employment by the Executive in connection with a Voluntary Termination shall be communicated by a notice of termination to the other party hereto given in accordance with Section 12.3 of this Agreement (the "Notice of Termination"). The Notice of Termination shall be given (a) in the case of a termination for Cause, within 90 business days after a director of the Corporation (excluding the Executive) has actual knowledge of the events giving rise to such purported termination, (b) in the case of a Termination for Good Reason, within 180 days of the Executive's having actual knowledge of the event

[9]

or events constituting Good Reason; and (c) in the case of Voluntary Termination, not later than 150 days prior to the date of termination specified in such notice. Such notice shall (x) indicate the specific termination provision in this Agreement relied upon, (y) set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated, as applicable, and (z) if the termination date is other than the date of receipt of such notice, specify the date on which the Executive's employment is to be terminated (which date shall not be earlier than the date on which such notice is actually given).

6.8. Certain Further Payments by the Corporation.

- (a) Tax Reimbursement Payment. Anything in this Agreement to the contrary notwithstanding, in the event that any amount or benefit paid, payable, or to be paid, or distributed, distributable, or to be distributed to or with respect to the Executive by the Corporation, the Subsidiary or any other Affiliate, including Base Salary, Incentive Bonuses, Restricted Stock, Options and any other amounts payable in respect of this Agreement (collectively, the "Covered Payments"), is or becomes, at any time, as a result of (i) any Internal Revenue Service claims or assertions, or (ii) Section 6.8(b) below or otherwise, subject to the excise tax imposed by or under Section 4999 of the Internal Revenue Code of 1986, as amended ("Code") (or any similar tax that may hereafter be imposed), and/or any interest or penalties with respect to such excise tax (such excise tax, together with such interest and penalties, are hereinafter collectively, referred to as the "Excise Tax"), the Corporation shall pay to the Executive at the time specified in Section 6.9 below an additional amount (the "Tax Reimbursement Payment") equal to the sum of (A) the amount of the Excise Tax imposed upon the Covered Payments, and (B) an amount equal to the product of (x) any deductions disallowed for federal, state or local income tax purposes because of the inclusion of the Tax Reimbursement Payment in the Executive's adjusted gross income, and (y) the highest applicable marginal rate of federal, state or local income taxation, respectively, for the calendar year in which the Tax Reimbursement Payment is made or is to be made. In addition, the Tax Reimbursement Payment will be increased to include any income taxes and Excise Tax imposed on or attributable to the Tax Reimbursement Payment such that after payment by the Executive of all taxes, the Executive shall retain an amount of the Tax Reimbursement Payment equal to the Excise Tax imposed on the Covered Payments.
- (b) Determining Excise Tax. Except as otherwise provided in Section 6.8(a)(i), for purposes of determining whether any of the Covered Payments will be subject to the Excise Tax and the amount of such Excise Tax,
- (i) such Covered Payments will be treated as "parachute payments" (within the meaning of Section 280G(b)(2) of the Code) and such payments in excess of the Code Section 280G(b)(3) "base amount" shall be treated as subject to the Excise Tax, unless, and except to the extent that, the Corporation's independent certified public accountants (the "Accountants") or legal counsel reasonably acceptable to the Executive, deliver timely, upon the Executive's request, a written opinion, reasonably satisfactory to the Executive's legal counsel, to the Executive that the Executive has a reasonable basis to claim that the Covered Payments (in whole or in part) (i) do not constitute "parachute payments", (ii) represent reasonable compensation for services actually rendered (within the meaning of Section 280G(b)(4) of the Code) in excess of the "base amount" allocable to such reasonable compensation, or (iii) such "parachute payments" are otherwise not subject to such Excise Tax (with appropriate legal authority, detailed analysis and explanation provided therein by the Accountants); and
- (ii) the value of any Covered Payments which are non-cash benefits or deferred payments or benefits shall be determined by the Accountants in accordance with the principles of Section 280G of the Code.
- (c) Applicable Tax Rates and Deductions. For purposes of determining the amount of the Tax Reimbursement Payment, the Executive shall be deemed:
- (i) to pay federal, state and/or local income taxes at the highest applicable marginal rate of income taxation for the calendar year in which the Tax Reimbursement Payment is made or is to be made, and
- [10]
- (ii) to have otherwise allowable deductions for federal, state and local income tax purposes at least equal to those disallowed due to the inclusion of the Tax Reimbursement Payment in the Executive's adjusted gross income.
- (d) Subsequent Events. If, pursuant to a written opinion, reasonably satisfactory to the Executive, of the Accountants (or legal counsel reasonably acceptable to the Executive) delivered to the Executive, the Excise Tax is subsequently determined on a reasonable basis and in good faith (other than as a result of a tax contest) to be less than the amount taken into account hereunder in calculating any Tax Reimbursement Payment made, the Executive shall repay to the Corporation the portion of any prior Tax Reimbursement Payment that would not have been paid if such redetermined Excise Tax had been applied in calculating such Tax Reimbursement Payment, plus interest on the amount of such repayment at the mid-term discount rate provided in Code Section 1274(b)(2)(B). Notwithstanding the immediately preceding sentence, if any portion of the Tax Reimbursement Payment to be refunded to the Corporation has been paid to any federal, state or local tax authority, repayment thereof shall not be required until an actual refund or credit of such portion has been made to or obtained by the Executive from such tax authority, and any interest payable to the Corporation shall not exceed the interest received or credited to the Executive by any such tax authority. The Executive shall be fully indemnified by the Corporation for any out-of-pocket costs, expenses or fees attributable to the filing of any refund or other claim. The Executive and the Corporation shall mutually agree upon the course of action to be pursued (and the method of allocating the expenses thereof) if any good faith claim for refund or credit from such tax authority made by the Executive is denied.

Notwithstanding the immediately preceding paragraph, if, in the written opinion of the Executive's tax advisors delivered to the Accountants and the Corporation, the Excise Tax is

later determined to exceed the amount taken into account by the Accountants or legal counsel, as the case may be, hereunder at the time any Tax Reimbursement Payment is made by reason of (i) manifest error, (ii) any payment the existence or amount of which could not be or was not determined or known about at the time of any Tax Reimbursement Payment, or (iii) any determination, claim or assertion made by any tax authority that the Excise Tax is or should be greater than the amount of such Excise Tax taken into account previously by the Accountants or legal counsel, as the case may be, or as otherwise previously determined, the Corporation shall make an additional Tax Reimbursement Payment in respect of such excess Excise Tax (which Tax Reimbursement Payment shall include, without limitation, any interest or penalties payable with respect to such excess Excise Tax) at the time specified in Section 6.9 below. With respect to this Section 6.8(d), if any such tax authority makes such a determination, the Executive shall notify the Corporation of such occurrence. If the Corporation obtains (at the Corporation's sole expense) an opinion of legal counsel reasonably satisfactory to the Executive that it is more likely than not that the Executive would succeed in disputing such claim, assertion or determination of such tax authority, the Executive shall, at the sole expense of the Corporation, make a good faith effort to contest such claim, assertion or determination of such tax authority in all relevant administrative proceedings with such tax authority and in any related judicial proceeding (excluding any appeals thereof); provided, however, that if the Executive determines in good faith that the continued contest of any such claim, assertion or determination with such tax authority would have an adverse impact on his overall tax position (which good faith determination shall take into account the magnitude of the amounts involved), then, upon receipt of notice by the Corporation from the Executive to that effect, the Executive shall, without forgoing any right to receive any Tax Reimbursement Payment described in this Section 6.8, have no further obligation to pursue any such contest with any such tax authority. The Executive may, as a condition to pursuing or commencing any contest described in this Section 6.8(d) in any judicial proceedings (which proceedings shall be in a forum chosen at the sole discretion of the Executive), require the Corporation to advance any amount of tax required to be paid in order to pursue such contest. In conducting any contest described in this Section 6.8(d), the Executive shall use his best efforts to keep the Corporation advised and will permit the Corporation to prepare and suggest appropriate responses and actions that may be reasonably made or taken by the Executive. Notwithstanding the above, the decisions as to such response or actions shall be solely that of the Executive and the Executive shall have the sole right to control the proceeding. The Corporation shall bear all expenses of any proceeding relating to any contest described in this Section 6.8(d), whether incurred by the Corporation or the Executive, including, without limitation, all fees and disbursements of attorneys, accountants and expert witnesses and any additional interest or penalties applicable. Nothing contained in this Agreement shall

[11]

under any circumstances give the Corporation any right to examine the tax returns or any other records of the Executive.

6.9. Payment.

- (a) Except as otherwise provided in this Agreement, and subject to Section 6.9(b) below, any payments to which the Executive shall be entitled under this Section 6 shall be made as follows:
 - (i) Except with respect to continued payment of Base Salary in accordance with any provisions of this Agreement, and except with respect to payment of any Incentive Bonus, payment shall be made as promptly as possible following (a) the Date of Termination, (b) the payment of any Covered Payments, or (c) the delivery of the opinion of the Executive's tax advisors, in accordance with Section 6.8(d). If the amount of any payment due to the Executive cannot be finally determined within 90 days after the Date of Termination, such amount shall be estimated on a good faith basis by the Corporation and the estimated amount shall be paid no later than 90 days after such Date of Termination. As soon as practicable thereafter, the final determination of the amount due shall be made and any adjustment requiring a payment to or from the Executive shall be made as promptly as practicable. Payment of any Incentive Bonus for a fiscal year shall be made at the same time such bonus would have been paid with respect to that fiscal year in accordance with Section 5.2(a)(v).
- (b) This Section 6.9(b) shall apply to all or any portion of any payment or benefit payable under this Section 6 as a result of termination of the Executive's employment that is not exempted from Code Section 409A ("Section 409A Compensation"). Notwithstanding anything in the Agreement to the contrary, the following rules shall apply to any Section 409A Compensation in order to prevent any accelerated or additional tax under Code Section 409A:
 - (i) If the termination of the Executive's employment does not qualify as a "separation from service" within the meaning of Treas. Reg. Section 1.409A-1(h) from the "Corporation's Controlled Group", then any Section 409A Compensation will not commence until a "separation from service" occurs or, if earlier, the earliest other date as is permitted under Code Section 409A. For this purpose, the "Corporation's Controlled Group" means the Corporation (A) any corporation which is a member of a controlled group of corporations (as defined in Code Section 414(b)) which includes the Corporation and (B) any trade or business (whether or not incorporated) which is under common control (as defined in Code Section 414(c)) with the Corporation.

- (ii) If at the time of the Executive's separation from service, the Executive is a "specified employee" as defined in Code Section 409A, then the Corporation will defer the commencement of any Section 409A Compensation (without any reduction in such payments or benefits ultimately paid or provided to the Executive) until the date that is six (6) months following separation from service or, if earlier, the earliest other date as is permitted under Code Section 409A.

7. Non-Exclusivity of Rights.

Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any bonus or incentive plan or program provided or maintained by the Corporation, the Subsidiary or any other Affiliate and for which the Executive may qualify or be selected, nor shall anything herein limit or otherwise prejudice such rights as the Executive may have under any other existing or future agreements with the Corporation, the Subsidiary or any Affiliate, including, without limitation, any change of control agreements or any stock option, restricted stock, or stock unit agreements, including the Restricted Stock Agreement and the Option Agreements. Except as otherwise expressly provided for in this Agreement, amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plans or programs of the Corporation, the Subsidiary or any other Affiliate at or subsequent to the Date of Termination shall be payable in accordance with such plans or programs.

[12]

8. Full Settlement.

The Corporation's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which the Corporation may have against the Executive or others.

9. Costs of Enforcement.

The following provisions of this Section 9 shall apply if it becomes necessary or desirable for the Executive to retain legal counsel or incur other costs and expenses in connection with either enforcing any and all of his rights under this Agreement or defending against any allegations by the Corporation of breach of this Agreement by the Executive:

- 9.1. The Executive shall be entitled to recover from the Corporation reasonable attorneys' fees, costs and expenses incurred by him in connection with such enforcement or defense.
- 9.2. Payments required under this Section 9 shall be made by the Corporation to the Executive (or directly to the Executive's attorney) promptly following submission to the Corporation of appropriate documentation evidencing the incurrence of such attorneys' fees, costs, and expenses.
- 9.3. The Executive shall be entitled to select his legal counsel; provided, however, that such right of selection shall not affect the requirement that any costs and expenses reimbursable under this Section 9 be reasonable.
- 9.4. The Executive's rights to payments under this Section 9 shall not be affected by the final outcome of any dispute with the Corporation; provided, however, that to the extent that the court shall determine that under the circumstances recovery by the Executive of all or a part of any such fees and costs and expenses would be unjust or inappropriate, the Executive shall not be entitled to such recovery; and to the extent that such amounts have been recovered by the Executive previously, the Executive shall repay such amounts to the Corporation.

In addition, the Corporation will reimburse the Executive for the reasonable attorney fees incurred in connection with the preparation and negotiation of this Agreement.

10. Confidential Information and Noncompetition.

- 10.1. Confidential Information. The Executive shall not, during the Term of Employment and thereafter, without the prior express written consent of the Corporation or the Subsidiary, disclose any confidential information, knowledge or data relating to the Corporation, the Subsidiary or any other Affiliate and their respective businesses, which (a) was obtained by the Executive in the course of the Executive's employment with the Corporation, and (b) which is not information, knowledge or data otherwise in the public domain (other than by reason of a breach of this provision by the Executive), unless required to do so by a court of law or equity or by any governmental agency or other authority. In no event shall an asserted violation of this Section 10.1 constitute a basis for delaying or withholding the payment of any amounts otherwise payable to the Executive under this Agreement.

- 10.2. Noncompetition. If the Executive terminates his employment hereunder pursuant to Section 6.4 of this Agreement, then the Corporation, by written notice given to the Executive within 30 days after the Executive delivers a Notice of Termination in connection with a Voluntary Termination, may require that this Section 10.2 apply. If the Corporation gives notice to the Executive as provided in the preceding sentence, then the Executive, without the express written consent of the Corporation, shall not, for the twelve month period following the Date of Termination, engage in any business, whether as an employee, consultant, partner, principal, agent, representative or stockholder (other than as a stockholder of less than a 5% equity interest) or in any other corporate or representative capacity, if it involves engaging in, or rendering services or advice pertaining to, any lines of business the Corporation or the Subsidiary was actively conducting on the Date of Termination. The obligation of the Executive to abide by the restrictions set forth in the preceding sentence shall be conditioned upon the Corporation continuing payment of the Executive's Base Salary for the 12-month period during which such restriction shall be in effect. Such Base Salary shall be paid at the rate in effect (as provided for in Section 5.1 of this Agreement) on the Date of Termination. If the Corporation shall institute any action or proceeding to enforce the provisions of this Section 10.2, or shall file any claim in any proceeding to enforce such provisions,

[13]

the Executive hereby waives the claim or defense that the Corporation has an adequate remedy at law and waives the requirement that the Corporation post a bond in securing equitable relief, and the Executive shall not contend in any such action or proceeding the claim or defense that an adequate remedy at law exists.

11. Successors.

- 11.1. The Executive. This Agreement is personal to the Executive and, without the prior express written consent of the Corporation, shall not be assignable by the Executive, except that the Executive's rights to receive any compensation or benefits under this Agreement may be transferred or disposed of pursuant to testamentary disposition, interstate succession or pursuant to a domestic relations order of a court of competent jurisdiction. This Agreement shall inure to the benefit of and be enforceable by the Executive's heirs, beneficiaries and/or legal representatives.
- 11.2. The Corporation. This Agreement shall inure to the benefit of and be binding upon the Corporation and its successors and assigns. The Corporation shall require any successor to all or substantially all of the business and/or assets of the Corporation or the Subsidiary, whether direct or indirect, by purchase, merger, consolidation, acquisition of stock, or otherwise, by an agreement in form and substance satisfactory to the Executive, expressly to assume and agree to perform this Agreement in the same manner and to the same extent as the Corporation would be required to perform if no such succession had taken place.

12. Miscellaneous.

- 12.1. Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, applied without reference to principles of conflict of laws.
- 12.2. Amendments. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.
- 12.3. Notices. All notices and other communications hereunder shall be in writing and shall be given by hand-delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:

Premium Point
New Rochelle, New York 10801

If to the Corporation:

c/o Ethan Allen Interiors Inc.
Ethan Allen Drive
Danbury, Connecticut 06813
Attn: Chairman, Compensation Committee

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notices and communications shall be effective when actually received by the addressee.

- 12.4. Withholding. The Corporation may withhold from any amounts payable under this Agreement such federal, state or local income taxes as shall be required to be withheld pursuant to any applicable law or regulation. If, at any time on or after the Commencement Date, the Executive will recognize taxable income with respect to the awards from the Corporation of Common Stock (regardless of when such awards are made), the Executive may elect to have the Corporation withhold from the shares to be delivered shares sufficient to satisfy all or a portion of such tax withholding requirements.
- 12.5. Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

12.6. Captions. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect.

[14]

12.7. Beneficiaries/References. The Executive shall be entitled to select (and change) a beneficiary or beneficiaries to receive any compensation or benefit payable hereunder following the Executive's death, and may change such election, in either case by giving the Corporation written notice thereof. In the event of the Executive's death or a judicial determination of his incompetence, reference in this Agreement to the Executive shall be deemed, where appropriate, to refer to other beneficiary(ies), estate or his legal representative(s).

12.8. Entire Agreement.

- (a) Upon the commencement of the Term of Employment, this Agreement will contain the entire agreement between the parties concerning the subject matter hereof and will supersede all prior agreements (including without limitation the 1997 Agreement and the 2002 Agreement, except as otherwise specifically provided in this Agreement), understandings, discussions, negotiations and undertakings, whether written or oral, between the parties with respect to the subject matter hereof, excluding: (i) the Restated Director Indemnification Agreement by and between the Corporation and the Executive; (ii) the Stock Option Agreements and the Restricted Stock Agreements; and (iii) the agreements governing the following awards associated with the Executive's employment by the Corporation that were granted to the Executive prior to Commencement Date: stock options (the "Prior Options"), restricted stock (the "Prior Restricted Stock"), and stock units (the "Prior Stock Units").
- (b) This Agreement shall not affect the Executive's rights to benefits accrued prior to October 1, 2007 and the Executive's rights with respect to Prior Options, Prior Restricted Stock, and Prior Stock Units shall be governed by the respective stock option, restricted stock, and stock unit agreements relating thereto. Notwithstanding the preceding sentence, (i) the Executive's rights with respect to the Prior Options, Prior Restricted Stock, and Prior Stock Units following the Executive's Date of Termination shall be governed by the provisions of Section 6 of this Agreement to the extent such provisions do not adversely affect the Executive's rights under those awards, and (ii) the expiration of the Agreement Term as defined in the 1997 Agreement and 2002 Agreement shall not result in vesting of any Prior Options, Prior Restricted Stock, or Prior Stock Units pursuant to the last paragraph of Section 6.3 of the 1997 Agreement and 2002 Agreement.

12.9. Representation. The Corporation represents and warrants that it is fully authorized and empowered to enter into this Agreement and that the performance of its obligations under this Agreement will not violate any agreement between the Corporation and any other person, firm or organization or any applicable laws or regulations.

12.10. Survivorship. The respective rights and obligations of the parties hereunder shall survive any termination of this Agreement or the Executive's employment hereunder to the extent necessary to the intended preservation of such rights and obligations.

[15]

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and the Corporation has caused this Agreement to be executed in its name on its behalf, and its corporate seal to be hereunto affixed and attested by its Secretary, all as of the day and year first above written.

EXECUTIVE

ETHAN ALLEN INTERIORS INC.

By: _____

Name: _____

Title: _____

[16]