

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM 10-K**

(Mark One)

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

For the fiscal year ended June 30, 2009 OR

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

For the transition period from to

Commission file number 1-11692

**Ethan Allen Interiors Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**(State or other jurisdiction of  
incorporation or organization)**06-1275288**(I.R.S. Employer  
Identification No.)**Ethan Allen Drive, Danbury, CT**

(Address of principal executive offices)

**06811**

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act:

**None**

(Title of Class)

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☒ Yes ☐ NoIndicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). ☐ Yes ☐ No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer ☐Accelerated filer ☒Non-accelerated filer ☐Smaller reporting company ☐Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). ☐ Yes ☒ No

The aggregate market value of the Registrant's common stock, par value \$.01 per share, held by non-affiliates (based upon the closing sale price on the New York Stock Exchange) on December 31, 2008, (the last day of the Registrant's most recently completed second fiscal quarter) was approximately \$413,411,234. As of July 31, 2009, there were 28,916,929 shares of the Registrant's common stock, par value \$.01 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: The Registrant's definitive Proxy Statement for the 2009 Annual Meeting of stockholders, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, is incorporated by reference into Part III hereof.

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### **PART I**

#### **Item 1. Business**

##### **Background**

Incorporated in Delaware in 1989, Ethan Allen Interiors Inc., through its wholly-owned subsidiary, Ethan Allen Global, Inc., and Ethan Allen Global, Inc.’s subsidiaries (collectively, “We,” “Us,” “Our,” “Ethan Allen” or the “Company”), is a leading manufacturer and retailer of quality home furnishings and accessories, offering a full complement of home decorating and design solutions through one of the country’s largest home furnishing retail networks. In recent years, we have made, and continue to make, considerable investment in our business in order to expand and improve our interior design capabilities. In order to better reflect these expanded capabilities, we have changed the designation of our Ethan Allen retail outlets from “stores” to “design centers”. The Company was founded in 1932 and has sold products under the Ethan Allen brand name since 1937.

##### **Mission Statement**

Our primary business objective is to provide our customers with a convenient, full-service, one-stop shopping solution for their home decorating needs by offering stylish, high-quality products at good value. In order to meet our stated objective, we have developed and adhere to a focused and comprehensive business strategy. The elements of this strategy, each of which is integral to our solutions-based philosophy, include (i) our vertically integrated operating structure, (ii) our products and related marketing initiatives, (iii) our retail design center network, (iv) our people, and (v) our numerous customer service offerings.

##### **Operating Segments**

Our operations are classified into two operating segments: wholesale and retail. These operating segments represent strategic business areas which, although they operate separately and provide their own distinctive services, enable us to more effectively offer our complete line of home furnishings and accessories. For certain financial information regarding our operating segments, see Note 16 to the Consolidated Financial Statements included under Item 8 of this Annual Report and incorporated herein by reference.

The wholesale segment is principally involved in the development of the Ethan Allen brand, which encompasses the design, manufacture, domestic and off-shore sourcing, sale and distribution of a full range of home furnishings and accessories to a network of independently operated and Ethan Allen operated design centers as well as related marketing and brand awareness efforts. Wholesale revenue is generated upon the wholesale sale and shipment of our product to all retail design centers, including those operated by Ethan Allen. Wholesale profitability includes (i) the wholesale gross margin, which represents the difference between the wholesale sales price and the cost associated with manufacturing and/or sourcing the related product, and (ii) other operating costs associated with wholesale segment activities.

The retail segment sells home furnishings and accessories to consumers through a network of Company-operated design centers. Retail revenue is generated upon the retail sale and delivery of our product to our customers. Retail profitability includes (i) the retail gross margin, which represents the difference between the retail sales price and the cost of goods purchased from the wholesale segment, and (ii) other operating costs associated with retail segment activities.

While the manner in which our home furnishings and accessories are marketed and sold is consistent, the nature of the underlying recorded sales (i.e. wholesale versus retail) and the specific services that each operating segment provides (i.e. wholesale manufacturing, sourcing, and distribution versus retail selling) are different. Within the wholesale segment, we maintain revenue information according to each respective product line (i.e. case goods, upholstery, or home accessories and other). Sales of case good items include, but are not limited to,

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beds, dressers, armoires, tables, chairs, buffets, entertainment units, home office furniture, and wood accents. Sales of upholstery home furnishing items include sleepers, recliners, chairs, sofas, loveseats, cut fabrics and leather. Skilled craftsmen cut, sew and upholster custom-designed upholstery items which are available in a variety of frame and fabric options. Home accessory and other items include window treatments, wall decor, lighting, clocks, bedding and bedspreads, decorative accessories, area rugs, and home and garden furnishings.

Revenue information by product line is not as easily determined within the retail segment. However, because wholesale production and sales are matched, for the most part, to incoming orders, we believe that the allocation of retail sales by product line would be similar to that of the wholesale segment.

We evaluate performance of the respective segments based upon revenues and operating income. Inter-segment eliminations result, primarily, from the wholesale sale of inventory to the retail segment, including the related profit margin.

In fiscal 2009, wholesale sales to independent retailers and retail sales of Company-operated design centers accounted for approximately 25% and 75%, respectively, of our consolidated net sales.

### **Wholesale Segment Overview:**

Wholesale net sales for each of the last three fiscal years are summarized below (in millions):

	Fiscal Year Ended June 30,		
	2009	2008	2007
Wholesale net sales	\$ 403.4	\$ 616.2	\$ 656.0

Wholesale net sales for each of the last three fiscal years, allocated by product line, were as follows:

	Fiscal Year Ended June 30,		
	2009	2008	2007
Case Goods	41%	43%	44%
Upholstered Products	41	40	38
Home Accessories and Other	18	17	18
	100%	100%	100%

During fiscal 2009, we operated as many as ten manufacturing facilities, including four case good plants (two of which include separate sawmill operations), four upholstery plants and one home accessory plant, located within the United States and one cut and sew operation in Mexico. As announced during the fiscal year, we are consolidating two upholstery plants into existing operations and one case goods plant including its sawmill operation. By the end of our first fiscal quarter of 2010, we plan to operate three case goods plants (including one sawmill), three upholstery plants (two upholstery plants on our Maiden, North Carolina campus and one cut and sew plant in Mexico) and one home accessory plant. We also source selected case good, upholstery, and home accessory items from third-party suppliers located both domestically and outside the United States.

As of June 30, 2009, we maintained a wholesale backlog of \$20.6 million (as compared to \$33.0 million as of June 30, 2008) which is anticipated to be serviced in the first quarter of fiscal 2010. Backlog at a point in time is a result, primarily, of net orders booked in prior periods, manufacturing schedules, timing associated with the receipt of sourced product, and the timing and volume of wholesale shipments. Because orders may be rescheduled and/or canceled, the measure of backlog at a point in time may not necessarily be indicative of future sales performance.

For the twelve months ended June 30, 2009, net orders booked at the wholesale level, which includes orders generated by independently operated and Company-operated design centers, totaled \$398.5 million as compared to \$617.1 million for the twelve months ended June 30, 2008. In any given period, net orders booked may be

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impacted by the timing of floor sample orders received in connection with new product introductions. New product offerings may be made available to the retail network at any time during the year, including in connection with our periodic retailer conferences.

### **Retail Segment Overview:**

Retail net sales for each of the last three fiscal years are summarized below (in millions):

	Fiscal Year Ended June 30,		
	2009	2008	2007
Retail net sales	\$ 508.6	\$ 724.6	\$ 698.6

We sell our products through a dedicated network of 293 retail design centers. As of June 30, 2009, we operated 159 design centers and independent retailers operated 134 design centers (as compared to 159 and 136, respectively, at the end of the prior fiscal year). The ten largest independent retailers own a total of 62 design centers, which, based on net orders booked, accounted for approximately 11% of total net sales in fiscal 2009.

During fiscal 2009 we acquired four design centers from independent retailers, opened six new design centers (of which three were relocations), and closed seven design centers. In addition, during the past year, independent retailers opened fourteen new design centers (of which three were relocations), and closed nine design centers. In the past five years, we and our independent retailers have, on a combined basis, opened 107 new design centers (of which 44 were relocations), and closed 81. The geographic distribution of all retail design center locations is included under Item 2 of Part I of this Annual Report.

We pursue further expansion of the Company-operated retail business by opening new design centers, relocating existing design centers and, when appropriate, acquiring design centers from independent retailers. In addition, we continue to promote the growth and expansion of our independent retailers through ongoing support in the areas of market analysis, site selection, and business development. All retailers are required to enter into license agreements with us which (i) authorize the use of certain Ethan Allen service marks and (ii) require adherence to certain standards of operation, including a requirement to fulfill related warranty service agreements. We are not subject to any territorial or exclusive retailer agreements in North America.

## **Products**

Our strategy has been to position Ethan Allen as a preferred brand with superior quality and value while, at the same time, providing consumers with a comprehensive, one-stop shopping solution for their home furnishing needs. In carrying out our strategy, we continue to expand our reach to a broader consumer base through a diverse selection of attractively priced products, many of which have been designed to complement one another, reflecting the recent trend toward more eclectic home decorating. Recent product introductions, as well as increased styles and fabric selections within our custom upholstery line, new finishes for, and redesigns of, previous product introductions, and expanded product offerings to accommodate today's home decorating trends, are serving to redefine Ethan Allen, positioning us as a leader in style.

In an effort to more effectively position ourselves as a provider of interior design solutions, we introduced a merchandising strategy which involves the grouping of our product offerings, previously categorized by collection, into seven distinct product "lifestyles", each reflecting the diversity and eclecticism that we believe represents the best in American design. In accordance with this merchandising strategy, new products are designed and developed to reflect unique elements applicable to one or more of the following lifestyles: Country House; Estate; Glamour; Global; Loft; Metro; and Villa.

All of our case goods, upholstered products, and home accessories are styled with distinct design characteristics. Home accessories play an important role in our marketing strategy as they enable us to offer the consumer the

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convenience of one-stop shopping by creating a comprehensive home furnishing solution. The interior of our design centers is designed to facilitate display of our product offerings in complete room settings in order to project the category lifestyle.

We continuously monitor changes in home design trends through attendance at international industry events and fashion shows, internal market research, and regular communication with our retailers and design center design consultants who provide valuable input on consumer tendencies. Observations and input gathered as a result of our efforts enable us to incorporate appropriate style details into our products thereby allowing us, we believe, to react quickly to changing consumer tastes. For example, since 2005, approximately 70% of our current complement of product offerings is new. Much of the balance has been refined and enhanced through product redesign, additions, deletions, and/or finish changes. Such undertakings are indicative of our ability to adapt to the current consumer trend toward more casual and eclectic lifestyles while, at the same time, maintaining a classic appeal.

In fiscal 2005, we also introduced an innovative pricing program, eliminating periodic sale events in lieu of a nation-wide uniform everyday best price on all of our product offerings. We believe that this approach demonstrates our commitment to differentiating ourselves through strategies focused on customer credibility and excellence in service. In addition, everyday best pricing provided us the opportunity to critically examine all facets of our business, making substantive changes, where necessary, in order to more effectively carry out our solutions-based approach to home decorating. In response to the recession, in the latter part of fiscal 2009 the Company offered special savings mostly on select initiatives including new product introductions.

## **Product Sourcing Activities**

We are one of the largest manufacturers of home furnishings in the United States, manufacturing and/or assembling approximately 65% of our products within six manufacturing facilities, one of which includes separate sawmill operations. Our facilities are located in the Northeast and Southeast regions of the United States and in Mexico where they are close to sources of raw materials and skilled craftsmen. The balance of our production is outsourced according to our own internally-developed design specifications, through third-party suppliers, most of which are located outside the United States. These suppliers, primarily in Asia, have been carefully selected and generally have supplied us for many years. We believe that continued investment in our manufacturing facilities, combined with an appropriate level of outsourcing through both foreign and domestic suppliers, will accommodate future sales growth and allow us to maintain an appropriate degree of control over cost, quality and service to our customers.

We also take pride in our "green" initiatives which include the use of responsibly harvested Appalachian woods, water based finishes, organic textiles and recycled materials.

## **Raw Materials and Other Suppliers**

The most important raw materials we use in furniture manufacturing are lumber, veneers, plywood, hardware, glue, finishing materials, glass, mirrored glass, laminates, fabrics, foam, and filling material. The various types of wood used in our products include cherry, ash, oak, maple, prima vera, mahogany, birch and pine, substantially all of which are purchased domestically.

Fabrics and other raw materials are purchased both domestically and outside the United States. We have no significant long-term supply contracts, and have sufficient alternate sources of supply to prevent disruption in supplying our operations. We maintain a number of sources for our raw materials which, we believe, contributes to our ability to obtain competitive pricing. Lumber prices fluctuate over time based on factors such as weather and demand, which, in turn, impact availability. Higher material prices could have an adverse effect on margins.

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Appropriate amounts of lumber and fabric inventory are typically stocked so as to maintain adequate production levels. We believe that our sources of supply for these materials are sufficient and that we are not dependent on any one supplier.

We enter into standard purchase agreements with certain foreign and domestic suppliers to source selected case good, upholstery, and home accessory items. The terms of these arrangements are customary for the industry and do not contain any long-term contractual obligations on our behalf. We believe we maintain good relationships with our suppliers.

## **Distribution and Logistics**

Within the wholesale segment, we warehouse and distribute our products primarily through a national network of four primary distribution centers (three of which are owned) strategically located throughout the United States. These distribution centers hold finished product received from our manufacturing facilities and our third-party suppliers, for shipment to retail design centers and retail service centers. From time to time, we may also rent temporary warehouse space and/or utilize third-party logistics service

providers to accommodate our additional storage needs. We stock selected case goods, upholstery and accessories to provide for quick delivery of in-stock items and to allow for more efficient production runs.

Wholesale shipments are made utilizing our own fleet of trucks and trailers or through subcontracting agreements with independent carriers. Approximately 45% of our fleet (trucks and trailers) is leased under operating lease agreements with terms ranging from one to 72 months.

Our policy is to sell our products at the same delivered cost to all Company-operated and independently operated design centers nationwide, regardless of their shipping point. The adoption of this policy has created pricing credibility with our customers and provided our retail network the opportunity to achieve more consistent margins as fluctuations attributable to the cost of shipping have been eliminated. Further, this policy has eliminated the need for our independent retailers to carry significant amounts of inventory in their own warehouses. As a result, we obtain more accurate information regarding product demand in order to better plan production runs and manage inventory levels.

Retail service centers are operated by the Company and the independent retailers to prepare products for delivery into clients' homes. The Company-operated service centers have been made more efficient and enabled us to reduce the total number from 50 at the beginning of fiscal 2008 to 26 at the end of fiscal 2009. We continue to evaluate the entire logistics and distribution model to further streamline these operations.

### **Marketing Programs**

We believe that our ability to create high-quality marketing programs and coordinate advertising efforts for Ethan Allen design centers, including, from time to time, coordination of local market advertising, provides a competitive advantage over other home furnishing manufacturers and retailers. With a dedicated network of about 300 retail design centers taking advantage of such internally-developed marketing efforts, we believe we are better positioned to fulfill our brand promise on a more consistent basis.

The objectives of our marketing campaign are to (i) communicate our position as both a leader in style and a full-service provider of home decorating and design solutions, and (ii) drive traffic into the retail design center network. In support of these objectives, several forms of media are utilized, including television (both national and local), direct mail, newspapers, magazines, radio, and our internet website. We also conduct a national email marketing campaign which serves to distribute electronic newsletters containing inspirational interior design ideas to a growing database of consumers.

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Our national television and print advertising campaigns are designed to capitalize on our existing brand equity and maintain top-of-mind awareness of the breadth of our product and service offerings. With this in mind, our in-house team of advertising specialists has developed what we believe is the most cohesive national advertising campaign in the home furnishings industry. Coordinated local television and print, to the extent these media are utilized, serve to support our national programs.

The Ethan Allen direct mail magazine, which brands our product lifestyles and communicates the breadth of our services, is one of our most important marketing tools. We publish and sell the magazines to both Company-operated and independently operated design centers, which, with demographic information collected through independent market research, are able to target potential customers. Given the importance of this advertising medium, direct mail marketing lists continue to be refined in order to target those consumers that are most likely to purchase, with the objective of improving our return on direct mail expenditures. Approximately 12 million copies of our direct mail magazine were distributed to consumers during fiscal 2009.

Our television advertising and direct mail efforts are supported by strong print and radio campaigns in various markets. During fiscal 2009, we also updated our 200-page "Ethan Allen Style" book. This publication, which includes a catalogue of our home furnishings and accessories, projects our seven product lifestyles to our clients and helps customers identify their own personal style using our product offerings. We believe this publication represents one of the most comprehensive and effective home decorating resources in the home furnishings industry.

In 2009, the Company launched the all-new ethanallen.com website which combines personal service and technology. The new state-of-the-art website provides a new way to shop for Ethan Allen and is designed to inspire visitors with videos, feature stories, design and style solutions, new photography, and Ethan Allen's portfolio for livable design—the Seven Lifestyles. It offers a new interactive design tool called *My Projects* that allows site visitors to create idea boards and room plans and get feedback online from a design consultant at a local design center. The website's *Inspire* section includes editorial features, new product stories, design trend information, decorating solutions, and a collection of creative films and TV clips showcasing Ethan Allen's Lifestyles and looks. The *As Seen In* column shows visitors how Ethan Allen products have influenced style around the globe. Ethan Allen's direct mail magazines are viewable online with full browsing and shopping capabilities. In the *Design* section, visitors can explore the Seven Lifestyles in depth and after finding their own style with our style quiz, shop the furnishings featured in the fully designed rooms. For the first time, visitors to ethanallen.com can now access nearly all of the Company's more than 3,000 products online. The new ethanallen.com received recognition at the 2008 IAC Awards (Internet Advertising Committee) as "outstanding website".

We have also developed an extranet website which links the retail design centers with consumer information captured on-line, such as customer requests for design assistance and copies of our direct mail magazine. This medium has become the primary source of communications within our retail network providing a variety of information, including a Company-wide daily news flash, downloads of current advertising materials, prototype design center display floor plans and detailed product information.

### **Retail Design Center Network**

Ethan Allen design centers are typically located in busy urban settings as freestanding destinations or as part of suburban strip malls, depending upon the real estate opportunities in a particular market. At the present time, our design centers average approximately 16,000 square feet in size. While the footprint for most of our retail network is similar, our design centers currently range in size from approximately 3,000 square feet to 35,000 square feet.

We maximize uniformity of presentation throughout the retail design center network through a comprehensive set of standards. These standards assist each design center in presenting a high quality image and offer retail customers consistent levels of product selection and service. A uniform design center image is conveyed through

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our ongoing program to model all retail design centers with similar and consistent exterior facades and interior layouts. This program is carried out at all design centers, including those that are independently operated.

We provide display planning assistance to all Company-operated design centers and independent retailers to support them in updating the interior projection and to maintain a consistent image. We have developed a standard interior design format for our retail network which, through the use of focused lifestyle settings to display our products and information displays to educate consumers, has positioned Ethan Allen as a leader in home furnishings retailing.

We have strengthened the retail division with many initiatives, including the opening of new and relocated design centers in desirable locations, introduction of Lifestyle

presentations and floor plans, strengthening of the professionalism of our designers through training and a team approach, and the consolidation of certain design centers and service centers. The bulk of this effort was completed by the end of fiscal 2008, but continued in fiscal 2009 with six new Company-operated design centers during the year including relocations and seven in underperforming markets closed. We consolidated 16 Company-operated retail service centers into larger service centers in fiscal 2008 and another eleven in fiscal 2009. We also opened three Company-operated service centers in fiscal 2009. This effort continues to reduce the retail logistics infrastructure needed to provide “white glove” delivery service to our customers.

## **People**

At June 30, 2009, we had approximately 4,300 employees (“associates”), less than one percent of whom are represented by unions. These collective bargaining agreements expire at various times within the next two years. We expect no significant changes in our relations with these unions and believe we maintain good relationships with our employees.

The retail network, which includes both Company-operated and independently operated design centers, is staffed with a sales force of design consultants and service professionals who operate in teams to provide customers with an effective home decorating solution at no additional charge. Our associates receive appropriate training with respect to the distinctive design and quality features inherent in each of our products and programs, allowing them to more effectively communicate the elements of style and value that serve to differentiate us from the competition. As such, we believe our design consultants, and the complimentary service they provide, create a distinct competitive advantage over other home furnishing retailers.

We have made considerable investment within the retail network to strengthen the level of service, professionalism, interior design competence, efficiency, and effectiveness of retail design center personnel. The implementation of the “team” concept is the latest phase of that progression, which resulted in the development of over 280 interior design teams within the Company design centers. We believe that with this structure, along with the emphasis in our messaging to clients that “we can help as little or as much as you like”, as well as offering the benefit of making appointments with our design professionals, we continue to improve the customer service experience.

We recognize the importance of our retail design center network to our long-term success. Accordingly, we believe we (i) have established strong management teams within Company-operated design centers and (ii) continue to work closely with our independent retailers in order to assist them in strengthening their teams. With this in mind, we make our services available to every design center, whether independently operated or Company-operated, in support of their marketing efforts, including coordinated advertising, merchandising and display programs, and extensive training seminars and educational materials. We believe that the development of design teams, design consultants, service and delivery personnel, and retailers is important for the growth of our business. As a result, we have committed to make available a comprehensive retail training program which is intended to increase the customer service capabilities of each individual.

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### **Customer Service Offerings**

We offer numerous customer service programs, each of which has been developed and introduced to consumers in an effort to make their shopping experience easier and more enjoyable.

#### ***Gift Card***

This program allows customers to purchase, through our website or at any participating retail design center, gift cards which can be redeemed for any of our products or services.

#### ***Rewards***

In celebration of the new website, the Company recently launched its “Become a Member” campaign. Members who are eligible receive 500 reward points. Each point is redeemable toward future qualifying purchases for up to the lesser of \$500 or 5% of the total qualifying purchase price. Shoppers can redeem their points both in Design Centers or online, through a limited time.

#### ***On-Line Room Planning***

We offer, via our website, an interactive on-line room planning resource which serves to further assist consumers with their home decorating needs. Through the use of this web-based tool, customers can determine which of our product offerings best fit their particular needs based on their own individual home floor plan.

#### ***Ethan Allen Consumer Credit Programs***

The Ethan Allen Finance Plus program offers consumers (clients) a menu of three custom financing options through the use of just one account. Clients can choose between (1) “Term Choice” which offers fixed monthly payments the customer chooses from 12 to 60 months at an interest rate from 3.99% to 9.99% per annum, (2) “No Payment / Deferred Interest” which offers clients a way to borrow interest free for three or six months with no monthly payments. If the purchase is not paid by the due date, interest is charged from the date of purchase at a fixed interest rate of 24.99% per annum, and (3) “Ethan Allen Prime” which offers the lowest minimum monthly payment plan including no payments the first three months; interest is accrued at a rate that matches the current prime rate. All plans provide credit lines from \$1,000 to \$20,000, or greater, if the customer qualifies. Financing offered is administered by a third-party financial institution and is granted to our customers on a non-recourse basis to the Company. Clients may apply for an Ethan Allen Finance Plus card at any participating design center or on-line at ethanallen.com.

### **Competition**

In recent years, the home furnishings industry has faced numerous challenges, not the least of which is an influx of low-priced competition from overseas. As a result, we believe a trend toward product commoditization has developed. In fiscal 2009, the economic recession resulted in many small furniture retailers going out of business and other well-established competitors resorting to heavy discounts to liquidate inventory. Instead of following this trend, we differentiate ourselves as a preferred brand by adhering to a business strategy focused on providing (i) high-quality, well designed and often custom handmade products at good value, (ii) a comprehensive complement of home furnishing design solutions, including our complimentary design service, and (iii) excellence in customer service. We consider our vertical integration a significant competitive advantage in the current environment as it allows us to design, manufacture and source, distribute, market, and sell our products through one of the industry’s largest single-source retail networks.

Industry globalization has provided us an opportunity to adhere to a blended sourcing strategy, establishing relationships with certain manufacturers, both domestically and outside the United States, to source selected case goods, upholstery, and home accessory items. We intend to continue to balance our domestic production with opportunities to source from foreign and domestic manufacturers, as appropriate, in order to maintain our competitive advantage.

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We believe the home furnishings industry competes primarily on the basis of product styling and quality, personal service, prompt delivery, product availability and price. We further believe that we effectively compete on the basis of each of these factors and that, more specifically, our retail format, our award winning website, and complimentary design service create a distinct competitive advantage, further supporting our mission of providing consumers with a complete home decorating and design



solution. Our objective is to continue to develop and strengthen our retail network by (i) expanding the Company-operated retail business through the relocation of existing design centers, opening of new design centers, and, when appropriate, acquiring design centers from, or selling design centers to, independent retailers, and (ii) obtaining and retaining independent retailers, encouraging such retailers to expand their business through the opening or relocation of new design centers with the objective of increasing the volume of their sales.

## **Trademarks**

We currently hold, or have registration applications pending for, numerous trademarks, service marks and design patents for the Ethan Allen name, logos and designs in a broad range of classes for both products and services in the United States and in many foreign countries. In addition, we have registered, or have applications pending for, many of our major collection names as well as certain of our slogans utilized in connection with promoting brand awareness, retail sales and other services. We view such trade and service marks as valuable assets and have an ongoing program to diligently monitor and defend, through appropriate action, against their unauthorized use.

## **Available Information**

We make available, free of charge via our website, all Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other information filed with, or furnished to, the Securities and Exchange Commission (the “SEC” or the “Commission”), including amendments to such reports. This information is available at [www.ethanallen.com/investors](http://www.ethanallen.com/investors) as soon as reasonably practicable after it is electronically filed with, or furnished to, the SEC. In addition, the SEC maintains a website that contains reports, proxy and information statements, and other information regarding companies that file electronically with the Commission. This information is available at [www.sec.gov](http://www.sec.gov).

In addition, charters of all committees of our Board of Directors, as well as our Corporate Governance guidelines, are available on our website at [www.ethanallen.com/governance](http://www.ethanallen.com/governance) or, upon written request, in printed hardcopy form. Written requests should be sent to Office of the Secretary, Ethan Allen Interiors Inc., Ethan Allen Drive, Danbury, Connecticut 06811.

## **Item 1A. Risk Factors**

*The following information describes certain significant risks and uncertainties inherent in our business that should be carefully considered, along with other information contained elsewhere in this report and in other filings, when making an investment decision with respect to us. If one or more of these risks actually occurs, the impact on our business, including our financial condition, results of operations, and cash flows could be adverse.*

### ***A prolonged economic downturn may continue to materially adversely affect our business.***

Our business and results of operations are affected by international, national and regional economic conditions. The United States and many other international economies have entered a recession. Our primary customer base, direct or indirect, is composed of individual consumers. Continued weakness in the U.S. economy, high unemployment, volatile capital markets, depressed housing prices and tight consumer lending practices have resulted in considerable negative pressure on consumer spending. We believe these events have impacted consumers in our markets in ways that have negatively affected our business. In the event the current economic

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downturn continues, or worsens, our current and potential customers may be inclined to further delay their purchases. In addition, further tightening of credit markets may restrict our customers’ ability and willingness to make purchases.

### ***Access to consumer credit could be interrupted and reduce sales and profitability.***

Our ability to continue to access consumer credit for our clients could be negatively affected by conditions outside our control. Given the difficult capital markets, there is a risk that, though we have agreements that do not expire until July 2012, our business partner which issues our private label credit card program, may not be able to fulfill their obligations under that agreement.

### ***We may be unable to obtain sufficient external funding to finance our operations and growth.***

Historically, we have relied upon our cash from operations to fund our operations and growth. As we operate and expand our business, we may rely on external funding sources, including the proceeds from the issuance of debt or the \$40 million revolving bank line of credit (expandable to \$60 million) under our existing credit facility. Any unexpected reduction in cash flow from operations could increase our external funding requirements to levels above those currently available. If our Standard & Poor’s credit rating remains below investment grade through March 2010, the issuer of our private label credit cards may exercise a right to demand up to \$12 million in letters of credit which would reduce the credit available for borrowings from the \$27.5 million remaining available at June 30, 2009. If the total remaining availability of the revolver is below \$17.5 million, a lien by the banks would be imposed on the Company’s intellectual property. If our credit ratings were lowered further, the Company’s access to debt (including its ability to expand the current revolver from \$40 million to up to \$60 million) could be negatively impacted. There can be no assurance that we will not experience unexpected cash flow shortfalls in the future or that any increase in external funding required by such shortfalls will be available.

### ***Continued operating losses could reduce our liquidity and impact our dividend policy.***

Historically, we have relied on our cash from operations to fund our operations and the payment of cash dividends. If the Company continues to experience operating losses we may not be able to fund a shortfall from operations and would require external funding. Due to recent changes in the capital markets, some financing instruments used by the Company in the past are currently not available to the Company. We cannot assure that additional sources of financing would be available to the Company on commercially favorable terms should the Company’s capital requirements exceed cash available from operations and existing cash and cash equivalents. In such circumstances the Company may further reduce its quarterly dividends.

### ***Additional impairment charges could reduce our profitability.***

We have significant long-lived tangible and intangible assets recorded on our balance sheets. If our operating results continue to decline, we may incur additional impairment charges in the future, which could have a material impact on our financial results. Although any such impairment charge would be a non-cash expense, it could materially increase our expenses and reduce our profitability in the period recorded. We will continue to evaluate the recoverability of the carrying amount of our long-lived tangible and intangible assets on an ongoing basis. There can be no assurance that the outcome of such future reviews will not result in substantial impairment charges. Impairment assessment inherently involves judgments as to assumptions about expected future cash flows and the impact of market conditions on those assumptions. Future events and changing market conditions may impact our assumptions as to prices, costs or other factors that may result in changes in our estimates of future cash flows. Although we believe the assumptions we use in testing for impairment are reasonable, significant changes in any of our assumptions could produce a significantly different result.

***We face changes in global and local economic conditions that may adversely affect consumer demand and spending, our manufacturing operations or sources of merchandise.***

Historically, the home furnishings industry has been subject to cyclical variations in the general economy and to uncertainty regarding future economic prospects. Such uncertainty, as well as other variations in global economic conditions such as rising fuel costs and increasing interest rates, may continue to cause inconsistent and unpredictable consumer spending habits, while increasing our own fuel, utility, transportation or security costs. These risks, as well as industrial accidents or work stoppages, could also severely disrupt our manufacturing operations, which could have a material adverse effect on our financial performance.

We import a portion of our merchandise from foreign countries. As a result, our costs may be increased by events affecting international commerce and businesses located outside the United States, including changes in international trade, central bank actions, changes in the relationship of the U.S. dollar versus other currencies, and other governmental policies of the U.S. and the countries from which we import a portion of our merchandise. The inability to import products from certain foreign countries or the imposition of significant tariffs could have a material adverse effect on our results of operations.

***Competition from overseas manufacturers continues to increase and may adversely affect our business, operating results or financial condition.***

Our wholesale business segment is involved in the development of our brand, which encompasses the design, manufacture, sourcing, sales and distribution of our home furnishings products, and competes with other U.S. and foreign manufacturers. Our retail business segment sells home furnishings to consumers through a network of Company-operated design centers, and competes against a diverse group of retailers ranging from specialty stores to traditional furniture and department stores, any of which may operate locally, regionally and nationally. We also compete with these and other retailers for appropriate retail locations as well as for qualified design consultants and management personnel. Such competition could adversely affect our future financial performance.

Industry globalization has led to increased competitive pressures brought about by the increasing volume of imported finished goods and components, particularly for case good products, and the development of manufacturing capabilities in other countries, specifically within Asia. The increase in overseas production capacity in recent years has created over-capacity for many U.S. manufacturers, including us, which has led to industry-wide plant consolidation. In addition, because many foreign manufacturers are able to maintain substantially lower production costs, including the cost of labor and overhead, imported product may be capable of being sold at a lower price to consumers, which, in turn, could lead to some measure of further industry-wide price deflation.

We cannot provide assurance that we will be able to establish or maintain relationships with certain manufacturers, whether foreign or domestic, to supply us with selected case goods, upholstery and home accessory items to enable us to maintain our competitive advantage. In addition, the recent emergence of foreign manufacturers has served to broaden the competitive landscape. Some of these competitors produce furniture types not manufactured by us and may have greater financial and other resources available to them. This competition could adversely affect our future financial performance.

***Failure to successfully anticipate or respond to changes in consumer tastes and trends in a timely manner could adversely impact our business, operating results and financial condition.***

Sales of our products are dependent upon consumer acceptance of our product designs, styles, quality and price. We continuously monitor changes in home design trends through attendance at international industry events and fashion shows, internal marketing research, and regular communication with our retailers and design center design consultants who provide valuable input on consumer tendencies. However, as with all retailers, our

business is susceptible to changes in consumer tastes and trends. Such tastes and trends can change rapidly and any delay or failure to anticipate or respond to changing consumer tastes and trends in a timely manner could adversely impact our business, operating results and financial condition.

***The consolidation of manufacturing and logistics operations into fewer sites may increase the exposure to business disruption and could result in higher transportation costs.***

The Company has reduced the number of redundant manufacturing sites in both our case goods and upholstery operations. Our upholstery operations consist of two upholstery plants on our Maiden, North Carolina campus supported in part by one cut and sew plant in Mexico. If any of these upholstery manufacturing sites experience significant business interruption, our ability to manufacture products timely would likely be impacted. Our plants require various raw materials and commodities such as logs and lumber for our case goods plants and foam, springs and engineered hardwood board for our upholstery plants. While we have long standing relationships with multiple outside suppliers of our raw materials and commodities, there can be no assurance of their ability to fulfill our supply needs on a timely basis. The consolidation to fewer retail logistics operations has resulted in longer distances for delivery and could result in higher costs to transport products if fuel costs increase significantly.

***Our current and former manufacturing and retail operations are subject to increasingly stringent environmental, health and safety requirements.***

We use and generate hazardous substances in our manufacturing and retail operations. In addition, both the manufacturing properties on which we currently operate and those on which we have ceased operations are and have been used for industrial purposes. Our manufacturing operations and, to a lesser extent, our retail operations involve risk of personal injury or death. We are subject to increasingly stringent environmental, health and safety laws and regulations relating to our current and former properties and our current operations. These laws and regulations provide for substantial fines and criminal sanctions for violations and sometimes require the installation of costly pollution control or safety equipment or costly changes in operations to limit pollution or decrease the likelihood of injuries. In addition, we may become subject to potentially material liabilities for the investigation and cleanup of contaminated properties and to claims alleging personal injury or property damage resulting from exposure to or releases of hazardous substances or personal injury as a result of an unsafe workplace.

We have been identified as a potentially responsible party in connection with one site that is currently listed, or proposed for inclusion, on the National Priorities List under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, or its state counterpart. In addition, noncompliance with, or stricter enforcement of, existing laws and regulations, adoption of more stringent new laws and regulations, discovery of previously unknown contamination or imposition of new or increased requirements could require us to incur costs or become the basis of new or increased liabilities that could be material.

***Fluctuations in the price, availability and quality of raw materials could result in increased costs or cause production delays which might result in a decline in sales, either of which could adversely impact our earnings.***

We use various types of wood, foam, fibers, fabrics, leathers, and other raw materials in manufacturing our furniture. Certain of our raw materials, including fabrics, are purchased both outside the United States and domestically. Fluctuations in the price, availability and quality of raw materials could result in increased costs or a delay in manufacturing our products, which in turn could result in a delay in delivering products to our customers. For example, lumber prices fluctuate over time based on factors such as weather and demand, which in turn, impact availability. Production delays or upward trends in raw material prices could result in lower sales or margins, thereby adversely impacting our earnings.



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In addition, certain suppliers may require extensive advance notice of our requirements in order to produce products in the quantities we desire. This long lead time may require us to place orders far in advance of the time when certain products will be offered for sale, thereby exposing us to risks relating to shifts in consumer demand and trends, and any further downturn in the U.S. economy.

***Our business is sensitive to increasing labor costs, competitive labor markets, our continued ability to retain high-quality personnel and risks of work stoppages.***

The market for qualified employees and personnel in the retail and manufacturing industries is highly competitive. Our success depends upon our ability to attract, retain and motivate qualified craftsmen, management, marketing and sales personnel and upon the continued contributions of these individuals. We cannot provide assurance that we will be successful in attracting and retaining qualified personnel. A shortage of qualified personnel may require us to enhance our wage and benefits package in order to compete effectively in the hiring and retention of qualified employees. Our labor costs may continue to increase and such increases may not be recovered. In addition, some of our employees are covered by collective bargaining agreements with local labor unions. Although we do not anticipate any difficulty renegotiating these contracts as they expire, a labor-related stoppage by these unionized employees could adversely affect our business and results of operations. The loss of the services of key personnel or our failure to attract additional qualified personnel could have a material adverse effect on our business, operating results and financial condition.

***Our success depends upon our brand, marketing and advertising efforts and pricing strategies, and if we are not able to maintain and enhance our brand, or if we are not successful in these other efforts, our business and operating results could be adversely affected.***

Maintaining and enhancing our brand is critical to our ability to expand our base of customers and may require us to make substantial investments. Our advertising campaign utilizes television, direct mail, newspapers, magazines and radio to maintain and enhance our existing brand equity. We cannot provide assurance that our marketing, advertising and other efforts to promote and maintain awareness of our brand will not require us to incur substantial costs. If these efforts are unsuccessful or we incur substantial costs in connection with these efforts, our business, operating results and financial condition could be adversely affected.

***We may not be able to maintain our current design center locations at current costs. We may also fail to successfully select and secure design center locations.***

Our design centers are typically located in busy urban settings as freestanding destinations or as part of suburban strip malls, depending upon the real estate opportunities in a particular market. Our business competes with other retailers and as a result, our success may be affected by our ability to renew current design center leases and to select and secure appropriate retail locations for existing and future design centers.

***We depend on key personnel and could be affected by the loss of their services***

The success of our business depends upon the services of certain senior executives, and in particular, the services of M. Farooq Kathwari, Chairman of the Board, President and Chief Executive Officer, who is the only one of our senior executives who operates under a written employment agreement. The loss of any such person or other key personnel could have a material adverse effect on our business and results of operations.

***Our results of operations for any quarter are not necessarily indicative of our results of operations for a full year.***

Sales of furniture and other home furnishing products fluctuate from quarter to quarter due to such factors as changes in global and regional economic conditions, changes in competitive conditions, changes in production schedules in response to seasonal changes in energy costs and weather conditions, and changes in consumer order patterns. From time to time, we have experienced, and may continue to experience, volatility with respect

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to demand for our home furnishing products. Accordingly, results of operations for any quarter are not necessarily indicative of the results of operations for a full year.

***Failure to protect our intellectual property could adversely affect us.***

We believe that our patents, trademarks, service marks, trade secrets, copyrights and all of our other intellectual property are important to our success. We rely on patent, trademark, copyright and trade secret laws, and confidentiality and restricted use agreements, to protect our intellectual property and may seek licenses to intellectual property of others. Some of our intellectual property is not covered by any patent, trademark, or copyright or any applications for the same. We cannot provide assurance that agreements designed to protect our intellectual property will not be breached, that we will have adequate remedies for any such breach, or that the efforts we take to protect our proprietary rights will be sufficient or effective. Any significant impairment of our intellectual property rights or failure to obtain licenses of intellectual property from third parties could harm our business or our ability to compete. Moreover, we cannot provide assurance that the use of our technology or proprietary know-how or information does not infringe the intellectual property rights of others. If we have to litigate to protect or defend any of our rights, such litigation could result in significant expense.

#### **Item 1B. Unresolved Staff Comments**

None.

#### **Item 2. Properties**

Our corporate headquarters, located in Danbury, Connecticut, consists of one building containing 144,000 square feet, situated on approximately 18.0 acres of land, all of which is owned by us. Located adjacent to the corporate headquarters, and situated on approximately 5.4 acres, is the Ethan Allen Hotel and Conference Center, containing 195 guestrooms. This hotel, owned by a wholly-owned subsidiary of Ethan Allen, is used in connection with Ethan Allen functions and training programs, as well as for functions and accommodations for the general public.

During fiscal 2009, we operated as many as ten manufacturing facilities located in six states and Mexico. All of these facilities are owned, with the exception of a 145,636 square foot leased upholstery plant in California which will be closed by January 2010. As announced during fiscal year 2009, we are consolidating select upholstery and case goods plants into existing operations. By the end of our first quarter of fiscal 2010, we plan to operate three case goods plants (including one sawmill) totaling 1,644,522 square feet, three upholstery furniture plants (consisting of two upholstery plants on our Maiden, North Carolina campus and one cut and sew plant in Mexico) totaling 649,396 square feet, and one home accessory plant that is 295,000 square feet all of which are owned by the company.

In addition, we operate four primary distribution centers, totaling 1,179,029 square feet. All of these facilities are owned, with the exception of one leased distribution facility in California, which is 80,000 square feet. Our U.S. manufacturing and distribution facilities for future operations are located in North Carolina, Vermont, Virginia, Oklahoma, California, New Jersey and Indiana, and our Mexico plant is located in Guanajuato.

We own four and lease 22 retail service centers, totaling 1,268,631 square feet. Our retail service centers are located throughout the United States and Canada and serve to

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The geographic distribution of our retail design center network as of June 30, 2009 is as follows:

	Retail Design Center Category	
	Company Operated	Independently Operated
United States	154	88
North America-Other (1)	5	2
Asia	—	41
Middle East	—	3
Total	159	134

(1) We own and operate five retail design centers located in Canada.

Of the 159 retail design centers operated by us, 76 of the properties are owned and 83 of the properties are leased from independent third parties. Of the 76 design center locations owned by us, 20 are subject to land leases. We own three additional retail properties, two of which are leased to independent Ethan Allen retailers, and one of which is leased to an unaffiliated third party. See Note 8 to the Consolidated Financial Statements included under Item 8 of this Annual Report for more information with respect to our operating lease obligations.

Our Ethan Allen Hotel and Conference Center located in Danbury, Connecticut, was financed, in part, with industrial revenue bonds. The bonds bear interest at a fixed rate of 7.50% and have a remaining balance at June 30, 2009 of \$3.9 million which matures in two years. The Beecher Falls, Vermont manufacturing facility was financed, in part, by the State of Vermont Economic Development Authority ("VEDA") and the Town of Canaan, Vermont. The VEDA debt matured in June 2006 and was repaid in full at that time. The Town of Canaan debt bears interest at a fixed rate of 3.00% and has a remaining balance at June 30, 2009 of \$0.3 million, with maturities of three to 18 years. We believe that all of our properties are well maintained and in good condition.

We estimate that our manufacturing division is currently operating at approximately 50% of capacity. As a result, we announced the consolidation of our Eldred, Pennsylvania and Chino, California upholstery plants into existing operations as well as the closure of our Andover, Maine case goods plant and realignment of other case goods operations in the Northeast. We believe we have additional capacity at selected facilities, which we could utilize with minimal additional capital expenditures.

### **Item 3. Legal Proceedings**

We are a party to various legal actions with customers, employees and others arising in the normal course of our business. We maintain liability insurance, which is deemed to be adequate for our needs and commensurate with other companies in the home furnishings industry. We believe that the final resolution of pending actions (including any potential liability not fully covered by insurance) will not have a material adverse effect on our financial condition, results of operations, or cash flows.

### **Environmental Matters**

We and our subsidiaries are subject to various environmental laws and regulations. Under these laws, we and/or our subsidiaries are, or may be, required to remove or mitigate the effects on the environment of the disposal or release of certain hazardous materials.

During the fiscal year ending June 30, 2009, our liability with respect to three active sites currently listed, or proposed for inclusion, on the National Priorities List ("NPL") under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), where we and/or our subsidiaries had been named as a Potentially Responsible Party ("PRP") located in Southington, Connecticut; High Point, North Carolina; and Atlanta, Georgia has been resolved.

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In each case we were not a major contributor based on the very small volume of waste generated by us in relation to total volume at those sites and were able to take part in de minimus settlement arrangements. Specifically, with respect to the Southington site, our volumetric share is less than 1% of over 51 million gallons disposed of at the site and there are more than 1,000 PRPs. With respect to the High Point site, our volumetric share is less than 1% of over 18 million gallons disposed of at the site and there are more than 2,000 PRPs, including more than 1,000 de minimis parties (of which we are one). With respect to the Atlanta site, a former solvent recycling/reclamation facility, our volumetric share is less than 1% of over 20 million gallons disposed of at the site by more than 1,700 PRPs.

In addition to the now settled actions discussed above, in July 2000, we were notified by the State of New York (the "State") that we may be named a PRP in a separate, unrelated matter with respect to a site located in Carroll, New York. In May, 2009, we were notified by the State that it had conducted an initial environmental study and that we have been named as a PRP. We believe that we are not a major contributor; however, a review of the initial environmental study is ongoing.

Liability under CERCLA may be joint and several. As such, to the extent certain named PRPs are unable, or unwilling, to accept responsibility and pay their apportioned costs, we could be required to pay in excess of our pro rata share of incurred remediation costs. Our understanding of the financial strength of other PRPs has been considered, where appropriate, in the determination of our estimated liability.

As of June 30, 2009, we believe that established reserves related to these environmental contingencies are adequate to cover probable and reasonably estimable costs associated with the remediation and restoration of these sites. We believe our currently anticipated capital expenditures for environmental control facility matters are not material.

We are subject to other federal, state and local environmental protection laws and regulations and are involved, from time to time, in investigations and proceedings regarding environmental matters. Such investigations and proceedings typically concern air emissions, water discharges, and/or management of solid and hazardous wastes. We believe that our facilities are in material compliance with all such applicable laws and regulations.

Regulations issued under the Clean Air Act Amendments of 1990 required the industry to reformulate certain furniture finishes or institute process changes to reduce emissions of volatile organic compounds. Compliance with many of these requirements has been facilitated through the introduction of high solids coating technology and alternative formulations. In addition, we have instituted a variety of technical and procedural controls, including reformulation of finishing materials to reduce toxicity, implementation of high velocity low pressure spray systems, development of storm water protection plans and controls, and further development of related inspection/audit teams, all of which have served to reduce emissions per unit of production. We remain committed to implementing new waste minimization programs and/or enhancing

existing programs with the objective of (i) reducing the total volume of waste, (ii) limiting the liability associated with waste disposal, and (iii) continuously improving environmental and job safety programs on the factory floor which serve to minimize emissions and safety risks for employees. We will continue to evaluate the most appropriate, cost effective, control technologies for finishing operations and design production methods to reduce the use of hazardous materials in the manufacturing process.

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

No matters were submitted for vote by our security holders during the fourth quarter of fiscal 2009.

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## **PART II**

#### **Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock is traded on the New York Stock Exchange under ticker symbol "ETH". The following table sets forth, for each of the past two fiscal years, (i) the high and low stock prices as reported on the New York Stock Exchange and (ii) the dividend per share paid by us:

	Market Price			Dividend Per Share				
	High	Low	Close					
<b><u>Fiscal 2009</u></b>								
First Quarter	\$	34.02	\$	22.34	\$	28.02	\$	0.25
Second Quarter		28.90		11.26		14.37		0.25
Third Quarter		15.05		6.98		11.26		0.10
Fourth Quarter		14.47		9.86		10.36		0.05
<b><u>Fiscal 2008</u></b>								
First Quarter	\$	36.55	\$	31.57	\$	32.69	\$	0.22
Second Quarter		35.41		25.87		28.50		0.22
Third Quarter		31.98		22.67		28.43		0.22
Fourth Quarter		31.37		24.48		24.60		0.22

As of August 13, 2009, there were 328 shareholders of record of our common stock. Management estimates there are over eleven thousand beneficial shareholders of the Company's common stock. On July 21, 2009, we declared a dividend of \$0.05 per common share, payable on October 26, 2009 to shareholders of record as of October 9, 2009. We expect to continue to declare quarterly dividends for the foreseeable future, business conditions permitting.

#### **Equity Compensation Plan Information**

The information required by this Item 5 with respect to Equity Compensation Plan Information is set forth in Item 12 — Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, contained in this Annual Report and incorporated herein by reference.

#### **Issuer Purchases of Equity Securities**

On November 21, 2002, our Board of Directors approved a share repurchase program authorizing us to repurchase up to 2,000,000 shares of our common stock, from time to time, either directly or through agents, in the open market at prices and on terms satisfactory to us. Subsequent to that date, the Board of Directors increased the remaining authorization as follows: from 904,755 shares to 2,500,000 shares on April 27, 2004; from 753,600 shares to 2,000,000 shares on November 16, 2004; from 691,100 shares to 2,000,000 shares on April 26, 2005; from 393,100 shares to 2,500,000 shares on November 15, 2005; from 1,110,400 shares to 2,500,000 shares on July 25, 2006; from 707,300 to 2,500,000 shares on July 24, 2007, and from 1,368,000 to 2,000,000 shares on November 13, 2007. As of June 30, 2009 we had a remaining Board authorization to repurchase 1,567,669 shares. There were no share repurchases during the quarter or fiscal year ended June 30, 2009.

#### **Stockholder Rights Plan**

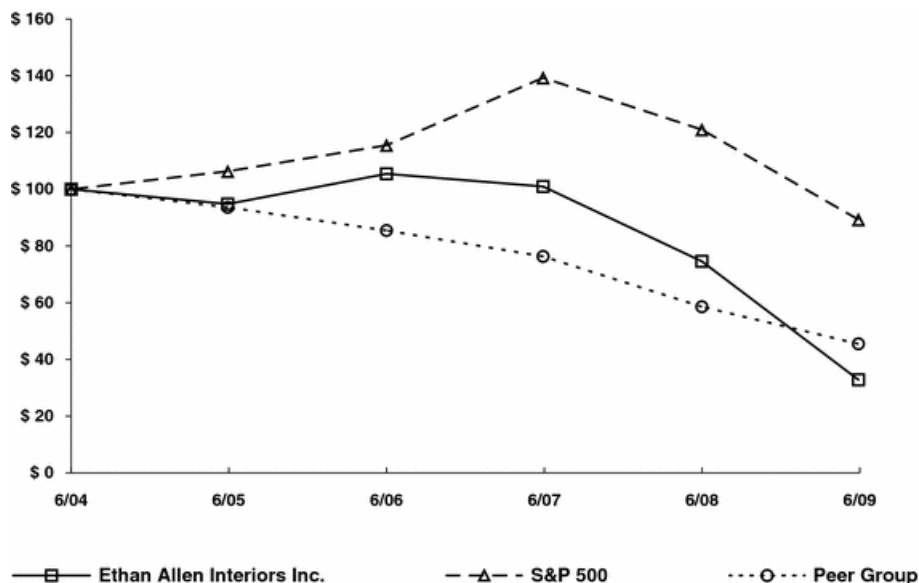
We have a Stockholder Rights Plan, a description of which is set forth in Note 9 to the Consolidated Financial Statements included under Item 8 of this Annual Report and incorporated herein by reference. Such description contains all of the required information with respect thereto.

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#### **Comparative Company Performance**

The following line graph compares cumulative total stockholder return for the Company with a performance indicator of the overall stock market, the Standard & Poor's 500 Index, and an industry index, the Peer Issuer Group Index, assuming \$100 was invested on June 30, 2004.

#### **COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*** Among Ethan Allen Interiors Inc., The S&P 500 Index And A Peer Group



\*\$100 invested on 6/30/04 in stock or index, including reinvestment of dividends. Fiscal year ending June 30.

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Peer group includes Bassett Furniture Industries, Inc., Chromcraft Revington, Inc., Flexsteel Industries, Inc., Furniture Brands International, Inc., Haverty Furniture Companies, Inc., La-Z-boy Inc., Legett & Platt, Inc., and Pier 1 Imports Inc. The returns of each company have been weighted according to each company's market capitalization.

#### Item 6. Selected Financial Data

The following table presents selected financial data for the fiscal years ended June 30, 2009, 2008, 2007, 2006 and 2005 which has been derived from our consolidated financial statements. The information set forth below should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included under Item 7 of this Annual Report and our Consolidated Financial Statements (including the notes thereto) included under Item 8 of this Annual Report.

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	Fiscal Year Ended June 30,				
	2009	2008	2007	2006	2005
<b>Statement of Operations Data:</b>					
Net sales	\$ 674,277	\$ 980,045	\$ 1,005,312	\$ 1,066,390	\$ 949,012
Cost of sales	326,935	453,980	478,729	525,408	487,958
Selling, general and administrative expenses	353,112	423,229	402,022	394,069	332,295
Restructuring and impairment charges, net	67,001	6,836	13,442	4,241	(219)
Operating income (loss)	(72,771)	96,000	111,119	142,672	128,978
Interest and other expense (income), net	8,409	3,822	1,393	4,567	(442)
Income (loss) before income tax expense	(81,180)	92,178	109,726	138,105	129,420
Income tax expense (benefit)	(28,493)	34,106	40,499	52,423	50,082
Net income (loss)	\$ (52,687)	\$ 58,072	\$ 69,227	\$ 85,682	\$ 79,338
<b>Per Share Data:</b>					
Net income (loss) per basic share	\$ (1.83)	\$ 1.98	\$ 2.19	\$ 2.58	\$ 2.24
Basic weighted average shares outstanding	28,814	29,267	31,566	33,210	35,400
Net income (loss) per diluted share	\$ (1.83)	\$ 1.97	\$ 2.15	\$ 2.51	\$ 2.19
Diluted weighted average shares outstanding	28,814	29,470	32,261	34,086	36,193
Cash dividends per share	\$ 0.65	\$ 0.88	\$ 0.80	\$ 0.72	\$ 0.60
<b>Other Information:</b>					
Depreciation and amortization	\$ 25,635	\$ 24,670	\$ 23,013	\$ 21,599	\$ 21,338
Capital expenditures and acquisitions	\$ 23,903	\$ 67,815	\$ 74,370	\$ 49,296	\$ 34,381
Working capital	\$ 139,239	\$ 176,796	\$ 234,990	\$ 278,038	\$ 130,423
Current ratio	2.24 to 1	2.30 to 1	2.59 to 1	2.88 to 1	1.97 to 1
Effective tax rate	35.1%	37.0%	36.9%	38.0%	38.7%
<b>Balance Sheet Data (at end of period):</b>					
Total assets	\$ 646,485	\$ 764,093	\$ 802,598	\$ 814,100	\$ 628,386
Total debt, including capital lease obligations	203,148	203,029	202,908	202,787	12,510
Shareholders' equity	\$ 305,923	\$ 375,773	\$ 409,642	\$ 417,442	\$ 434,068
Debt as a percentage of equity	66.4%	54.0%	49.5%	48.6%	2.9%
Debt as a percentage of capital	39.9%	35.1%	33.1%	32.7%	2.8%

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

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

## **Forward-Looking Statements**

Management's discussion and analysis of financial condition and results of operations and other sections of this Annual Report contain forward-looking statements relating to our future results. Such forward-looking statements are identified by use of forward-looking words such as "anticipates", "believes", "plans", "estimates", "expects", and "intends" or words or phrases of similar expression. These forward-looking statements are subject to management decisions and various assumptions, risks and uncertainties, including, but not limited to: the effects of terrorist attacks or conflicts or wars involving the United States or its allies or trading partners; the effects of labor strikes; weather conditions that may affect sales; volatility in fuel, utility, transportation and security costs; changes in global or regional political or economic conditions, including changes in governmental and central bank policies; changes in business conditions in the furniture industry, including changes in consumer spending patterns and demand for home furnishings; effects of our brand awareness and marketing programs, including changes in demand for our existing and new products; our ability to locate new design center sites and/or negotiate favorable lease terms for additional design centers or for the expansion of existing design centers; competitive factors, including changes in products or marketing efforts of others; pricing pressures; fluctuations in interest rates and the cost, availability and quality of raw materials; those matters discussed in Items 1A and 7A of this Annual Report and in our SEC filings; and our future decisions. Accordingly, actual circumstances and results could differ materially from those contemplated by the forward-looking statements.

## **Critical Accounting Policies**

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

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

***Revenue Recognition*** — Revenue is recognized when all of the following have occurred: persuasive evidence of a sales arrangement exists (e.g. a wholesale purchase order or retail sales invoice); the sales arrangement specifies a fixed or determinable sales price; product is shipped or services are provided to the customer; and collectibility is reasonably assured. As such, revenue recognition occurs upon the shipment of goods to independent retailers or, in the case of Ethan Allen-operated retail design centers, upon delivery to the customer. Recorded sales provide for estimated returns and allowances. We permit our customers to return defective products and incorrect shipments, and terms we offer are standard for the industry.

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

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

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

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill and other indefinite-lived intangible assets are evaluated for impairment on an annual basis and between annual tests whenever events or circumstances indicate that the carrying value of the goodwill or other intangible asset may exceed its fair value. We conduct our required annual impairment test during the fourth quarter of each fiscal year and use a discounted cash flow model to estimate fair value. This model requires the use of long-term planning forecasts and assumptions regarding industry-specific economic conditions that are outside our control.

***Income Taxes*** — Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Additional factors that we consider when making judgments about the deferred tax valuation include tax law changes, a recent history of cumulative losses, and variances in future projected profitability.

Effective July 1, 2007, we adopted Financial Accounting Standards Board ("FASB") Interpretation No. ("FIN") 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109, *Accounting for Income Taxes*, which provides a comprehensive model for the recognition, measurement, presentation, and disclosure in a company's financial statements of uncertain tax positions taken, or expected to be taken, on a tax return. If an income tax position exceeds a 50% probability of success upon tax audit, based solely on the technical merits of the position, the company recognizes an income tax benefit in its financial statements. The tax benefits recognized are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The liability associated with an unrecognized tax benefit is classified as a long-term liability except for the amount for which a cash payment is expected to be made or tax positions settled within one year. We recognize interest and penalties related to income tax matters as a component of income tax expense.

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***Business Insurance Reserves*** — We have insurance programs in place to cover workers' compensation and property/casualty claims. The insurance programs, which are funded through self-insured retention, are subject to various stop-loss limitations. We accrue estimated losses using actuarial models and assumptions based on historical loss



experience. Although we believe that the insurance reserves are adequate, the reserve estimates are based on historical experience, which may not be indicative of current and future losses. In addition, the actuarial calculations used to estimate insurance reserves are based on numerous assumptions, some of which are subjective. We adjust insurance reserves, as needed, in the event that future loss experience differs from historical loss patterns.

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

#### **Basis of Presentation**

As of June 30, 2009, Ethan Allen Interiors Inc. has no material assets other than its ownership of the capital stock of Ethan Allen Global, Inc. and conducts all significant transactions through Ethan Allen Global, Inc.; therefore, substantially all of the financial information presented herein is that of Ethan Allen Global, Inc.

#### **Results of Operations**

Our Company has been severely impacted by the ongoing recession in the United States and abroad. Continued weakness in the U.S. economy, high unemployment, volatile capital markets, depressed housing prices and tight consumer lending practices have driven consumer confidence down to, or near, historical lows and resulted in considerable negative pressure on spending by individual consumers, our primary customer base. The Company is continuing to adjust our infrastructure to match our sales volumes as we work through these difficult times.

#### **Restructuring Activities:**

In 2009, the Company made several announcements on changes to our operations as we continue to improve the structure of our business especially in light of the recent economic downturn. In January 2009, the Company announced a plan to consolidate the operations of its Eldred, Pennsylvania upholstery manufacturing plant and several of its retail service centers. In June 2009, the Company announced the consolidation of its Chino, California operations into its Maiden, North Carolina facility and the consolidation of its Andover, Maine sawmill and dimension mill to its Beecher Falls, Vermont sawmill and dimension mill operations. For these fiscal 2009 actions, the Company estimates pre-tax restructuring, impairment, and other related charges will ultimately approximate \$30 million, consisting of \$15 million in write down of long-lived assets, \$8 million in employee severance and other payroll and benefit costs, and \$7 million in other associated costs. By segment, we expect \$23 million in costs for the wholesale segment and \$7 million for the retail segment. Total costs for these 2009 actions in the current fiscal year by segment are \$17.0 million for Wholesale, and \$2.6 million for Retail all of which have been classified in the Statement of Operations as restructuring and impairment charges. Approximately 800 employee positions and 140 contract worker positions will be eliminated due to these actions.

In January 2008, we announced a plan to consolidate the operations of certain Company-operated retail design centers and retail service centers. In connection with this initiative, we have permanently ceased operations at ten

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design centers and six retail service centers which, for the most part, were consolidated into other existing operations. We also implemented our design team concept across the Retail division at the end of the fiscal year. We recorded pre-tax restructuring, impairment, and other related charges of \$6.8 million for fiscal 2008, with \$3.3 million for lease cancellation and other costs which will be paid out over periods ranging from less than one to seven years, \$2.7 million, which was non-cash in nature, related to fixed asset impairment charges, primarily for real property and leasehold improvements, and \$0.9 million was related to employee severance and benefits. During fiscal 2009, we recorded a net reduction of pre-tax restructuring, impairment, and other related charges of \$1.0 million, primarily due to net gains on the sale of real estate of \$4.2 million, partly offset by additional charges and adjustments to previous estimates for leased facilities of \$2.3 million and employee severance, benefits and other charges of \$0.5 million. Cumulative charges to date for these actions total \$5.5 million, all of which have been classified in the Statement of Operations as restructuring and impairment charges. In addition to the Retail charges, \$0.4 million was recorded in the first quarter of fiscal 2009 to update the fair value of a wholesale plant site held for sale.

On September 6, 2006, we announced a plan to close our Spruce Pine, North Carolina case goods manufacturing facility and convert our Atoka, Oklahoma upholstery manufacturing facility into a regional distribution center. The decision impacted approximately 465 employees. We recorded a pre-tax restructuring and impairment charge of \$14.1 million during the quarter ended September 30, 2006, of which \$4.0 million was related to employee severance and benefits and other plant exit costs, and \$10.1 million of fixed asset impairment charges. During the first six months of fiscal 2007, adjustments totaling \$0.4 million were recorded to reverse remaining previously established accruals which were no longer deemed necessary.

#### **Analysis of Goodwill and Other Intangible Assets:**

We conduct an annual impairment analysis of goodwill and other indefinite lived intangible assets the first of April each fiscal year, unless events occur or circumstances change that would more likely than not reduce the fair value of the goodwill or other indefinite lived intangible assets below their carrying value. In determining whether an interim test is appropriate, management considers several factors including changes in the Company's stock price, financial performance, third party ratings on its long term debt, and expected financial outlook of the business. Methods employed to value the enterprise and the Company's retail and wholesale segments include the market approach and the income approach, which are reconciled with the total market capitalization of the Company. These valuation methods use historical revenues and cash flows, as well as Company and external analysts' financial projections and apply discount rates, weighted average cost of capital rates, total invested capital multiples, and premium control multiples. Fair value of our trade name is valued using the relief-from-royalty method. Significant factors used in trade name valuation are royalty rates, future growth and discount rates, and expense rates.

In the fiscal quarter ended December 31, 2008, net sales declined 7.9% from the previous quarter and there was a meaningful decline (34.5%) in the company's average stock price from the first fiscal quarter to the second (from \$26.35 to \$17.27). This decline coupled with the sudden and dramatic change in the business climate as seen through the financial crisis with global banking institutions led to an interim evaluation of goodwill and other intangible assets. As a result of these tests, management concluded that the estimated value of the wholesale and retail segments exceeded their carrying values and no impairment was indicated.

In the fiscal quarter ended March 31, 2009, net sales declined 26.0% from the previous quarter resulting in a 660 basis point decline in gross margin plus a further decline (36.2%) in the company's average stock price (from \$17.27 to \$11.02). These declines coupled with a significant loss from operations led to a second interim evaluation of goodwill and other intangible assets. As a result of these tests, management concluded the carrying value of goodwill on our retail division's books exceeded its fair value. Therefore, we recorded a non-cash impairment charge of \$48.4 million. No impairment of the goodwill or other indefinite lived assets on our wholesale division's books was appropriate.

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In the fiscal quarter ended June 30, 2009, the Company performed its annual impairment test on April 1 and noted no additional impairment was appropriate. During the quarter, business performance stabilized with net sales slightly lower (1%) than the previous quarter, gross margin improved 160 basis points and there was a slight increase in cash on hand (to \$53 million). The average price of our stock increased 9.8% (from \$11.02 to \$12.11). The ratings on the Company's long term debt were lowered by third parties to speculative grade and the Company updated its forecasts. The Company considered these factors and concluded that an interim impairment test was not required on the wholesale segment. No additional evaluation of the retail segment was appropriate as all goodwill was written off in the previous fiscal quarter.

There can be no assurance that the outcome of future reviews will not result in substantial impairment charges. Impairment assessment inherently involves judgments as to assumptions about expected future cash flows and the impact of market conditions on those assumptions. Future events and changing market conditions may impact our assumptions as to prices, costs or other factors that may result in changes in our estimates of future cash flows. Although we believe the assumptions we use in testing for impairment are reasonable, significant changes in any of our assumptions could produce a significantly different result.

#### Business Results:

Our revenues are comprised of (i) wholesale sales to independently operated and Company-operated retail design centers and (ii) retail sales of Company-operated design centers. See Note 16 to our Consolidated Financial Statements for the year ended June 30, 2009 included under Item 8 of this Annual Report.

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

	Fiscal Year Ended June 30,		
	2009	2008	2007
<b>Revenue:</b>			
Wholesale segment	\$ 403.4	\$ 616.2	\$ 656.0
Retail segment	508.6	724.6	698.6
Elimination of inter-segment sales	(237.7)	(360.8)	(349.3)
Consolidated revenue	<u>\$ 674.3</u>	<u>\$ 980.0</u>	<u>\$ 1,005.3</u>
<b>Operating Income (loss):</b>			
Wholesale segment (1)	\$ 6.7	\$ 100.3	\$ 99.2
Retail segment (2)	(92.1)	(2.8)	15.2
Adjustment for inter-company profit(3)	12.6	(1.5)	(3.3)
Consolidated operating income	<u>\$ (72.8)</u>	<u>\$ 96.0</u>	<u>\$ 111.1</u>

- (1) Operating income for the Wholesale segment for the twelve months ended June 2009 and 2007 includes pre-tax restructuring and impairment charges of \$17.4 million and \$13.4 million, respectively.
- (2) Operating income for the Retail segment for the twelve months ended June 2009 and 2008 includes pre-tax restructuring and impairment charges of \$49.6 million and \$6.8 million, respectively.
- (3) Represents the change in the inventory profit elimination entry necessary to adjust for the embedded wholesale profit contained in Ethan Allen-operated design center inventory existing at the end of the period.

#### Fiscal 2009 Compared to Fiscal 2008

**Consolidated revenue** for the fiscal year ended June 30, 2009 decreased by \$305.7 million, or 31.2%, to \$674.3 million, from \$980 million in fiscal 2008. Net sales for the period largely reflect the delivery of product associated with booked orders and backlog existing as of beginning of the period. During the year, sales were negatively

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affected by a weak retail environment for home furnishings which we believe is due to a number of factors including but not limited to continued weakness in the U.S. economy, high unemployment, volatile capital markets, depressed housing prices and tight consumer lending practices as well as the use of highly-promotional pricing strategies by the Company's competitors. These factors were partially offset by (i) the positive effects of our continued efforts to reposition the retail network, (ii) the introduction of our new American Artisan product line, (iii) several new marketing initiatives including the launching of our new interactive web site ethanalleninc.com and our rewards program, and in the latter part of the fiscal year, special savings pricing, and (iv) the continued use of national television media, where we emphasize to clients our interior design services and the full line of our quality product offerings.

**Wholesale revenue** for fiscal 2009 decreased by \$212.9 million, or 34.5%, to \$403.4 million from \$616.2 million in the prior year. The year-over-year decrease was primarily attributable to a decline in the incoming order rate as a result of the softer retail environment for home furnishings noted throughout the current period and from fewer independent retail design centers, which decreased to 134 from 136 including four locations transferred in to the company's Retail division during the year.

**Retail revenue** from Ethan Allen-operated design centers for the twelve months ended June 30, 2009 decreased by \$216.0 million, or 29.8%, to \$508.6 million from \$724.6 million for the twelve months ended June 30, 2008. The decrease in retail sales by Ethan Allen-operated design centers was attributable to a decrease in comparable design center delivered sales of \$211.9 million, or 32.5%, and reduced revenue from sold and closed design centers of \$64.4 million. This unfavorable variance was partially offset by higher sales generated by newly opened (including relocated) or acquired design centers of \$60.4 million. The number of Ethan Allen-operated design centers remained at 159 at both June 30, 2009 and June 30, 2008. During that twelve month period, we acquired four design centers from independent retailers, and opened six new design centers (of which three were relocations).

Comparable design centers are those which have been operating for at least 15 months. Minimal net sales, derived from the delivery of customer ordered product, are generated during the first three months of operations of newly opened (including relocated) design centers. Design centers acquired by us from independent retailers are included in comparable design center sales in their 13th full month of Ethan Allen-operated operations.

Year-over-year, written business of Ethan Allen-operated design centers decreased 32.6% and comparable design center written business decreased 35.4%. Over that same period, wholesale orders decreased 35.4%. Retail written business reflects the softer retail environment for home furnishings noted throughout the current year, likely offset, to some degree, by (i) our continued efforts to reposition the retail network, (ii) recent product introductions, (iii) several new marketing initiatives described previously, and (iv) our continued use of national television as an advertising medium throughout much of the year.

**Gross profit** for fiscal 2009 declined to \$347.3 million from \$526.1 million in fiscal 2008. The \$178.7 million decrease in gross profit was primarily attributable to a combined decline in both wholesale and retail sales volume of 31.2%, partially offset by a shift in sales mix with retail sales representing a higher proportionate share of total sales in the current full year (75.4%) as compared to the prior full year (73.9%). As a result of reduced sales, and to reduce inventories, manufacturing plants were operated at approximately 50% of capacity. This resulted in higher unabsorbed costs in our manufacturing plants which were charged to expense during the period. The consolidated gross margin decreased to 51.5% for fiscal 2009 from 53.7% in fiscal 2008 as a result, primarily, of the factors set forth above.

**Operating profit**, the elements of which are discussed in greater detail below, was impacted by the following items during the twelve months ended June 30, 2009 and 2008:

**Operating expenses** decreased \$10.0 million, or 2.3%, to \$420.1 million, or 62.3% of net sales, in fiscal 2009 from \$430.1 million, or 43.9% of net sales, in fiscal 2008. Decreases in salary related costs were experienced due to the reduced number of employees and other cost cutting efforts taken by the Company that impacted bonuses and

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benefits. Advertising expenses decreased, while still maintaining our national TV and shelter magazine presence. Delivery and warehousing costs were lower due to decreased sales. Partially offsetting these decreases were (i) a non-cash goodwill impairment charge of \$48.4 million recorded in the March 2009 quarter and (ii) an \$11.8 million period-over-period increase in restructuring and impairment charges, both discussed earlier, and (iii) added costs of \$7 million due to the implementation of the team concept which caused a temporary overlap of expenses and is now concluded.

**Consolidated operating income** for the year ended June 30, 2009 totaled a loss of \$72.8 million, or 10.8% of net sales, compared to income of \$96.0 million, or 9.8% of net sales, in the prior year. The decrease of \$168.8 million was largely attributable to (i) a 31.2% reduction in net sales, resulting in a \$178.7 million reduction in gross profit, (ii) a goodwill impairment charge, (iii) increased restructuring and impairment charges and (iv) net declines in other operating expenses, all of which were discussed previously.

**Wholesale operating income** for fiscal 2009 totaled \$6.7 million, or 1.7% of net sales, as compared to \$100.3 million, or 16.3% of net sales, in the prior year. The decrease of \$93.7 million was primarily attributable to (i) the \$212.9 reduction in net sales, and (ii) a \$17.4 million increase in restructuring and impairment charges due to the 2009 actions discussed earlier.

**Retail operating income** decreased \$89.3 million to a \$92.1 million loss, or 18.1% of sales, for fiscal 2009, from a loss of \$2.8 million, or 0.4% of sales, for fiscal 2008. The decrease in retail operating income generated by Ethan Allen-operated design centers was primarily attributable to reduced sales caused by the weak retail environment for home furnishings, as well as the \$48.4 million goodwill impairment charge.

**Interest and other miscellaneous income, net** totaled \$3.4 million in fiscal 2009 as compared to \$7.9 million in fiscal 2008. The \$4.5 million decrease was mostly due to lower investment income resulting from reduced cash and cash equivalent balances maintained along with lower rates of interest during the current period and by gains recorded in connection with the sale of selected real estate assets in the prior year.

**Interest and other related financing costs** remained largely unchanged at \$11.8 million from \$11.7 million in the prior year. This amount mostly consists of interest expense on our senior unsecured debt issued in September 2005.

**Income tax** totaled a benefit of \$28.5 million for fiscal 2009 as compared to an expense of \$34.1 million for fiscal 2008. Our effective tax rate for the current year was 35.1%, compared to 37.0% in the prior year. The effective tax rate was a result, primarily, of the total current year loss before tax and the resulting valuation allowance taken against certain deferred tax assets and the inability to apply the manufacturers' deduction provided for under The Jobs Creation Act of 2004.

**Net income** for fiscal 2009 was a loss of \$52.7 million as compared to income of \$58.1 million in fiscal 2008. Net loss per diluted share totaled \$1.83 in the current year compared to net income of \$1.97 per diluted share in the prior year.

*Fiscal 2008 Compared to Fiscal 2007*

**Consolidated revenue** for the fiscal year ended June 30, 2008 decreased by \$25.3 million, or 2.5%, to \$980 million, from \$1.005 billion in fiscal 2007. Net sales for the period largely reflect the delivery of product associated with booked orders and backlog existing as of beginning of the period. During the year, sales were impacted by a weak retail environment for home furnishings, particularly during the latter half of the year. We believe this is due to continued weakening of consumer confidence with the current economic conditions in the U.S. and abroad. These factors were partially offset by (i) the positive effects of our continued efforts to reposition the retail network, (ii) new product introductions, and (iii) an increase in the continued use of national television as

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an advertising medium, where we emphasize to clients our interior design services and the full line of our quality product offerings.

We have made considerable investment within the retail network to strengthen the level of service, professionalism, interior design competence, efficiency, and effectiveness of retail design center personnel. The implementation of the "team" concept is the latest phase of that progression, which resulted in the development of over 280 interior design teams. We believe that with this structure along with the emphasis in our messaging to clients that we are here to "help as little or as much" as they like, as well as offering the benefit of making appointments with our design professionals, we continue to improve the customer service experience.

**Wholesale revenue** for fiscal 2008 decreased by \$39.8 million, or 6.1%, to \$616.2 million from \$656.0 million in the prior year. The year-over-year decrease was primarily attributable to a decline in the incoming order rate as a result of the softer retail environment for home furnishings noted throughout much of the current period and from fewer independent retail design centers, which decreased to 136 from 155 including six locations transferred in to the company's Retail division during the year.

**Retail revenue** from Ethan Allen-operated design centers for the twelve months ended June 30, 2008 increased by \$26.0 million, or 3.7%, to \$724.6 million from \$698.6 million for the twelve months ended June 30, 2007. The increase in retail sales by Ethan Allen-operated design centers was attributable to higher sales generated by newly opened (including relocated) or acquired design centers of \$66.8 million. This favorable variance was partially offset by unfavorable variances related to a decrease in comparable design center delivered sales of \$21.3 million, or 3.2%, and reduced revenue from sold and closed design centers of \$19.5 million. The number of Ethan Allen-operated design centers increased to 159 as of June 30, 2008 as compared to 158 as of June 30, 2007. During that twelve month period, we acquired five design centers from, and opened one previously operated by independent retailers, and opened eighteen new design centers (of which eleven were relocations).

Comparable design centers are those which have been operating for at least 15 months. Minimal net sales, derived from the delivery of customer ordered product, are generated during the first three months of operations of newly opened (including relocated) design centers. Design centers acquired by us from independent retailers are included in comparable design center sales in their 13th full month of Ethan Allen-operated operations.

Year-over-year, written business of Ethan Allen-operated design centers increased 0.6% and comparable design center written business decreased 5.6%. Over that same period, wholesale orders decreased 8.0%. Retail written business reflects the softer retail environment for home furnishings noted throughout much of the current year, likely offset, to some degree, by (i) our continued efforts to reposition the retail network, (ii) recent product introductions, and (iii) our continued use of national television as an advertising medium throughout much of the year.

**Gross profit** for fiscal 2008 declined slightly to \$526.1 million from \$526.6 million in fiscal 2007. The \$0.5 million decrease in gross profit was primarily attributable to a decline in wholesale sales volume partially offset by a shift in sales mix with retail sales representing a higher proportionate share of total sales in the current full year (74%) as

compared to the prior full year (69%). The consolidated gross margin increased to 53.7% for fiscal 2008 from 52.4% in fiscal 2007 as a result, primarily, of the factors set forth above.

**Operating profit**, the elements of which are discussed in greater detail below, was impacted by the following items during the twelve months ended June 30, 2008 and 2007:

**Operating expenses** increased \$14.6 million, or 3.5%, to \$430.1 million, or 43.9% of net sales, in fiscal 2008 from \$415.5 million, or 41.3% of net sales, in fiscal 2007. This increase was primarily attributable to increased costs associated with (i) occupancy, managerial salaries and benefits, and designer compensation largely because of our continued efforts to be located in more prominent locations and to upgrade our ability to provide professional service during the year, as well as (ii) the impact of higher fuel costs on warehousing and delivery. Partially

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offsetting these increases were (i) decreases in workers compensation insurance and health insurance and compensation costs as a result of improved claim experience, and (ii) a period-over-period reduction in the restructuring and impairment charges mentioned earlier.

**Consolidated operating income** for the year ended June 30, 2008 totaled \$96.0 million, or 9.8% of net sales, compared to \$111.1 million, or 11.1% of net sales, in the prior year. The decrease of \$15.1 million was primarily attributable to higher period-over-period operating expenses discussed above, partially offset by (i) a reduction in restructuring and impairment charges and (ii) a small decline in gross profit, all of which were discussed previously.

**Wholesale operating income** for fiscal 2008 totaled \$100.3 million, or 16.3% of net sales, as compared to \$99.2 million, or 15.1% of net sales, in the prior year. The improvement of \$1.1 million was primarily attributable to (i) the reduction in restructuring and impairment charges mentioned above, and (ii) improved performance within our remaining product sourcing operations, including a reduction in overhead as a result of past plant closures. These factors were partially offset by an overall decrease in wholesale shipments during the year.

**Retail operating income** decreased \$18.0 million to a \$2.8 million loss, or 0.4% of sales, for fiscal 2008, from \$15.2 million, or 2.2% of sales, for fiscal 2007. The decrease in retail operating income generated by Ethan Allen-operated design centers was primarily attributable to higher operating expenses as a result of our continued efforts to reposition the retail network including the \$6.8 million restructuring and impairment charges recorded in the year. These unfavorable variances were partially offset by higher gross profit on the higher sales recorded during the year.

**Interest and other miscellaneous income, net** totaled \$7.9 million in fiscal 2008 as compared to \$10.4 million in fiscal 2007. The \$2.5 million decrease was mostly due to decreased investment income resulting from lower cash and short term investment balances maintained during the current period coupled with lower rates of interest.

**Interest and other related financing costs** remained largely unchanged at \$11.7 million from \$11.8 million in the prior year. This amount mostly consists of interest expense on our senior unsecured debt issued in September 2005.

**Income tax expense** totaled \$34.1 million for fiscal 2008 as compared to \$40.5 million for fiscal 2007. Our effective tax rate for the current year was 37.0%, compared to 36.9% in the prior year. The effective tax rate was a result, primarily, of the adverse effects of recently-enacted changes within certain state tax legislation, increased state income tax liability arising in connection with the operation of a greater number of Company-operated design centers, and increased foreign income tax liability associated with our five retail design centers operating in Canada and our manufacturing operation in Mexico. Partially offsetting these items were the benefits derived from the manufacturers' deduction provided for under The Jobs Creation Act of 2004 and certain tax planning initiatives.

**Net income** for fiscal 2008 was of \$58.1 million as compared to \$69.2 million in fiscal 2007. Net income per diluted share totaled \$1.97 in the current year and \$2.15 per diluted share in the prior year.

#### **Liquidity and Capital Resources**

As of June 30, 2009, we held cash and cash equivalents totaling \$53.0 million. Our principal sources of liquidity include cash and cash equivalents, cash flow from operations, and borrowing capacity under revolving credit facility.

During fiscal 2009, the Company terminated its unsecured \$200 million revolving credit facility which had never been used for other than support of outstanding letters of credit. On May 29, 2009, we entered into a three-year secured \$40 million asset-based revolving credit facility (the "Facility") with fewer covenant restrictions which

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the Company believes to be more appropriate in the current credit environment. The Facility is subject to borrowing base availability and includes an opportunity for expansion of up to an additional \$20 million of financing.

At the Company's option, revolving loans under the Agreement bear interest at an annual rate of either:

- (a) London Interbank Offered rate ("LIBOR") plus 3.25% to 4.25%, based on the average availability, or
- (b) the higher of (i) a prime rate, (ii) the federal funds effective rate plus 0.50%, or (iii) a LIBOR plus 1.00% plus, in each case, an additional 2.25% to 3.25%, based on average availability.

The Company will pay a commitment fee of 0.50% per annum on the unused portion of the Facility and participation fees on issued letters of credit at an annual rate of 1.625% to 4.25%, based on the average availability and the letter of credit type, and a fronting fee of 0.125% per annum.

The borrowing base at any time equals the sum of: up to 90% of eligible credit card receivables; plus up to 85% of eligible accounts receivable; plus up to 85% of the net orderly liquidation value of eligible inventory. The Facility is secured by all property owned, leased or operated by the Company in the United States excluding any real property owned by the Company and also excludes any intellectual property owned by the Company unless availability is less than or equal to \$17.5 million.

The Facility contains customary covenants which may limit the Company's ability to incur debt; engage in mergers and consolidations; make restricted payments (including dividends); sell certain assets; and make investments. The Company may make restricted payments (including dividends) as long as availability equals or exceeds the greater of (i) 25% of the aggregate commitment or (ii) \$12 million. If the average monthly availability is less than the greater of (i) 15% of the aggregate commitment and (ii) \$9 million, the Company is also required to meet a fixed charge coverage ratio financial covenant which may not be less than 1 to 1 for any period of four consecutive fiscal quarters. The Facility also contains customary borrowing conditions and events of default, the occurrence of which would entitle the lenders to accelerate the maturity of any outstanding borrowings and terminate their commitment to make future loans.

In addition, on September 27, 2005, we completed a private offering of \$200.0 million in ten-year senior unsecured notes due 2015 (the "Senior Notes"). The Senior Notes

were offered by Ethan Allen Global, Inc. ("Global"), a wholly-owned subsidiary of the Company, and have an annual coupon rate of 5.375%. We have used the net proceeds of \$198.4 million to expand our retail network, invest in our manufacturing and logistics operations, and for other general corporate purposes.

In June 2009, Moodys Investors Service lowered our corporate and senior unsecured credit ratings to Ba1 from Baa3, and Standard & Poor's ("S&P") lowered our corporate and senior unsecured credit ratings to BB from BBB-. Both rating services cited the weak economy and the resultant pressure on the home furnishings industry as reasons for the downgrade. While the change in our credit rating had no impact on our existing credit facilities, the S&P downgrade, if not improved to investment grade by March 2010, the issuer of our private label credit cards has a right to demand a standby letter of credit of up to \$12 million. At June 30, 2009, we had \$12.5 million in letters of credit outstanding, leaving \$27.5 million remaining available credit under the revolver. Any additional letters of credit would reduce the credit available for borrowings under the revolver.

The Company believes it has sufficient cash and access to credit (including its ability to expand the \$40 million credit facility to up to \$60 million) to fund its operations and growth plans.

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A summary of net cash provided by (used in) operating, investing, and financing activities for each of the last three fiscal years is provided below (in millions):

	Fiscal Year Ended June 30,		
	2009	2008	2007
<b>Operating Activities</b>			
Net income plus depreciation and amortization	\$ (27.1)	\$ 82.7	\$ 92.2
Working capital	24.8	(5.5)	20.9
Excess tax benefits from share-based payment arrangements	—	(2.1)	(5.0)
Other (non-cash items, long-term assets and liabilities)	24.2	11.0	11.1
Total provided by operating activities	<u>\$ 21.9</u>	<u>\$ 86.1</u>	<u>\$ 119.2</u>
<b>Investing Activities</b>			
Capital expenditures	\$ (22.5)	\$ (60.0)	\$ (59.0)
Acquisitions	(1.4)	(7.8)	(15.3)
Asset sales	6.4	6.9	5.4
Other	—	(0.5)	0.2
Total used in investing activities	<u>\$ (17.5)</u>	<u>\$ (61.3)</u>	<u>\$ (68.7)</u>
<b>Financing Activities</b>			
Issuances of common stock	\$ —	\$ 0.5	\$ 0.5
Purchases and retirement of company stock	—	(75.6)	(57.2)
Payment of cash dividends	(23.6)	(25.5)	(24.8)
Excess tax benefits from share-based payment arrangements	—	2.1	5.0
Payment of deferred financing costs	(1.4)	—	(0.1)
Total provided by (used in) financing activities	<u>\$ (25.0)</u>	<u>\$ (98.5)</u>	<u>\$ (76.6)</u>

### Operating Activities

During fiscal 2009, cash provided by operating activities decreased \$64.2 million, mostly because of the decrease in net income. While expenses were reduced and restructuring actions were taken to counteract these conditions, cash savings in the current year were not enough to offset reduced income. Cash generated from working capital (accounts receivable, inventories, prepaid and other current assets, customer deposits, payables, accrued expenses, and other current liabilities) reduction, increased cash by \$30.3 million largely from inventory reduction initiatives taken. The \$13.2 million change from other operating activities was largely driven by the non-cash restructuring and goodwill impairment charges net of tax effects recorded this fiscal year.

### Investing Activities

In fiscal 2009, cash used in investing activities was lower by \$43.8 million due, primarily, to a \$37.5 million decrease in cash utilized to fund capital expenditures. The level of acquisitions decreased \$6.4 million in fiscal 2009 as compared to fiscal 2008. The current level of capital spending is principally attributable to (i) continued design center development and renovation, but at a reduced level from the prior two years, and (ii) entity-wide technology initiatives including the new interactive website. We anticipate that cash from operations will be sufficient to fund future capital expenditures, business conditions permitting.

### Financing Activities

For fiscal 2009, cash used in financing activities decreased \$73.5 million as a result, primarily, of a curtailment in payments for the acquisition of treasury stock. On July 21, 2009, we declared a dividend of \$0.05 per common share, payable on October 26, 2009, to shareholders of record as of October 9, 2009. We expect to continue to declare quarterly dividends for the foreseeable future.

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As of June 30, 2009, our outstanding debt totaled \$203.1 million, the current and long-term portions of which amounted to less than \$0.1 million and \$203.1 million, respectively. The aggregate scheduled maturities of long-term debt for each of the next five fiscal years are: less than \$0.1 million in fiscal 2010; \$3.9 million in fiscal 2011; and less than \$0.1 million in fiscal 2012, 2013 and 2014. The balance of our long-term debt (\$199.2 million) matures in fiscal 2015. We had no revolving loans outstanding under the credit facility as of June 30, 2009, and stand-by letters of credit outstanding under the facility at that date totaled \$12.5 million. Remaining available borrowing capacity under the facility was \$27.5 million at June 30, 2009.

The following table summarizes, as of June 30, 2009, the timing of cash payments related to our outstanding contractual obligations (in thousands):

	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
<b>Long-term debt obligations:</b>					
Debt maturities	\$ 203,148	\$ 42	\$ 3,917	\$ 22	\$ 199,167



Contractual interest	70,519	11,048	21,802	21,511	16,158
Operating lease obligations	234,518	36,863	59,636	41,068	96,951
Letters of credit	12,460	12,460	—	—	—
Purchase obligations (1)	—	—	—	—	—
Other long-term liabilities	249	30	51	48	120
Total contractual obligations	<u>\$ 520,894</u>	<u>\$ 60,443</u>	<u>\$ 85,406</u>	<u>\$ 62,649</u>	<u>\$ 312,396</u>

(1) For purposes of this table, purchase obligations are defined as agreements that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. While we are not a party to any significant long-term supply contracts or purchase commitments, we do, in the normal course of business, regularly initiate purchase orders for the procurement of (i) selected finished goods sourced from third-party suppliers, (ii) lumber, fabric, leather and other raw materials used in production, and (iii) certain outsourced services. All purchase orders are based on current needs and are fulfilled by suppliers within short time periods. At June 30, 2009, our open purchase orders with respect to such goods and services totaled approximately \$22 million.

Further discussion of our contractual obligations associated with outstanding debt and lease arrangements can be found in Notes 7 and 8, respectively, to the Consolidated Financial Statements included under Item 8 of this Annual Report.

We believe that our cash flow from operations, together with our other available sources of liquidity, will be adequate to make all required payments of principal and interest on our debt, to permit anticipated capital expenditures, and to fund working capital and other cash requirements. As of June 30, 2009, we had working capital of \$139.2 million and a current ratio of 2.24 to 1.

In addition to using available cash to fund changes in working capital, necessary capital expenditures, acquisition activity, the repayment of debt, and the payment of dividends, we have been authorized by our Board of Directors to repurchase our common stock, from time to time, either directly or through agents, in the open market at prices and on terms satisfactory to us. All of our common stock repurchases and retirements are recorded as treasury stock and result in a reduction of shareholders' equity.

During fiscal 2009, 2008 and 2007, we repurchased and/or retired the following shares of our common stock:

	2009	2008 (1)	2007(2)(3)
Common shares repurchased	—	2,259,631	1,548,700
Cost to repurchase common shares	—	\$ 69,745,024	\$ 53,955,970
Average price per share	—	\$ 30.87	\$ 34.84

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- (1) During fiscal 2008, we also retired 661,688 shares of common stock tendered upon the exercise of outstanding employee stock options (592,861 to cover share exercise and 68,827 to cover related employee tax withholding liabilities). The value of such shares on the date redeemed was \$23,033,359, representing an average price per share of \$34.81.
- (2) The cost to repurchase shares in fiscal 2008 reflects \$3,436,230 in common stock repurchases with a June 2007 trade date and a July 2007 settlement date.
- (3) During fiscal 2008, we also retired 555,531 shares of common stock tendered upon the exercise of outstanding employee stock options (410,073 to cover share exercise and 145,458 to cover related employee tax withholding liabilities). The value of such shares on the date redeemed was \$21,506,193, representing an average price per share of \$38.71.

For each of the fiscal years presented above, we funded our purchases of treasury stock with existing cash on hand and cash generated through current period operations. During the last three fiscal years, the Board of Directors increased the then remaining share repurchase authorization as follows: to 2.5 million shares on November 15, 2005; to 2.5 million shares on July 25, 2006; to 2.5 million shares on July 24, 2007 and to 2.0 million shares on November 13, 2007. As of June 30, 2009, we had a remaining Board authorization to repurchase 1.6 million shares.

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

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

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

### **Retailer-Related Guarantees**

#### **Independent Retailer Credit Facility**

On June 11, 2009, we obligated ourselves, on behalf of one of our independent retailers, with respect to a \$0.5 million credit facility (the "Amended Credit Facility"). The Company had previously guaranteed on April 9, 2009, on behalf of the independent retailer, a \$0.9 million credit facility (the "Credit Facility"). This obligation requires us, in the event of the retailer's default under the Amended Credit Facility, to repurchase the retailer's inventory, applying such purchase price to the retailer's outstanding indebtedness under the Amended Credit Facility. Our obligation remains in effect for the life of the term loan. The agreement expires in April 2011. The maximum potential amount of future payments (undiscounted) that we could be required to make under this obligation is limited to the amount outstanding under the Credit Facility at the time of default (subject to pre-determined lending limits based on the value of the underlying inventory) and, as such, is not an estimate of future cash flows. No specific recourse or collateral provisions exist that would enable recovery of any portion of amounts paid under this obligation, except to the extent that we maintain the right to take title to the repurchased inventory. We anticipate that the repurchased inventory could subsequently be sold through our retail design center network.

As of June 30, 2009, the amount outstanding under the Amended Credit Facility totaled approximately \$0.5 million. Based on the underlying creditworthiness of the respective retailer, we believe this obligation will expire without requiring funding by us. However, in accordance with the provisions of FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, a liability has been established to reflect our non-contingent obligation under this arrangement as a result of modifications made to the Credit Facility subsequent to January 1, 2003. As of June 30, 2009, the carrying amount of such liability is less than \$50,000.

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Ethan Allen Consumer Credit Program

The terms and conditions of our consumer credit program, which is financed and administered by a third-party financial institution on a non-recourse basis to Ethan Allen, are set forth in an agreement between us and that financial service provider (the "Program Agreement"). Any independent retailer choosing to participate in the consumer credit program is required to enter into a separate agreement with that same third-party financial institution which sets forth the terms and conditions under which the retailer is to perform in connection with its offering of consumer credit to its customers (the "Retailer Agreement"). We have obligated ourselves on behalf of any independent retailer choosing to participate in our consumer credit program by agreeing, in the event of default, breach, or failure of the independent retailer to perform under such Retailer Agreement, to take on certain responsibilities of the independent retailer, including, but not limited to, delivery of goods and reimbursement of customer deposits. Customer receivables originated by independent retailers remain non-recourse to Ethan Allen. Our obligation remains in effect for the term of the Program Agreement which expires in July 2012. While the maximum potential amount of future payments (undiscounted) that we could be required to make under this obligation is indeterminable, recourse provisions exist that would enable us to recover, from the independent retailer, any amount paid or incurred by us related to our performance. Based on the underlying creditworthiness of our independent retailers, including their historical ability to satisfactorily perform in connection with the terms of our consumer credit program, we believe this obligation will expire without requiring funding by us. To ensure funding for delivery of products sold, the terms of this agreement also contain a right for the credit card issuer to demand from the Company a letter of credit of up to \$12 million if the Company's credit rating is below investment grade for more than 270 consecutive days. See the *Liquidity and Capital Resource* section above for more information.

**Product Warranties**

Our products, including our case goods, upholstery and home accents, generally carry explicit product warranties that extend from three to five years and are provided based on terms that are generally accepted in the industry. All of our domestic independent retailers are required to enter into, and perform in accordance with the terms and conditions of, a warranty service agreement. We record provisions for estimated warranty and other related costs at time of sale based on historical warranty loss experience and make periodic adjustments to those provisions to reflect actual experience. On rare occasion, certain warranty and other related claims involve matters of dispute that ultimately are resolved by negotiation, arbitration or litigation. In certain cases, a material warranty issue may arise which is beyond the scope of our historical experience. We provide for such warranty issues as they become known and are deemed to be both probable and estimable. It is reasonably possible that, from time to time, additional warranty and other related claims could arise from disputes or other matters beyond the scope of our historical experience. As of June 30, 2009, the Company's product warranty liability totaled \$1.0 million.

**Impact of Inflation**

We believe inflation had an impact on our business the last three fiscal years but we have generally been able to increase prices, create operational efficiencies, or seek lower cost alternatives in order to offset increases in operating costs and effectively manage our working capital.

**Business Outlook**

While we cannot forecast, with any degree of certainty, changes in the various macro-economic factors that influence the incoming order rate, we believe that we are well-positioned both for the possibility of continued market weakness and the next phase of economic growth based upon our existing business model which includes: (i) an established brand; (ii) a comprehensive complement of home decorating solutions; and (iii) a vertically-integrated operating structure.

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As macro-economic factors change, however, it is also possible that our costs associated with production (including raw materials and labor), distribution (including freight and fuel charges), and retail operations (including compensation and benefits, delivery and warehousing, occupancy, and advertising expenses) may increase. We cannot reasonably predict when, or to what extent, such events may occur or what effect, if any, such events may have on our consolidated financial condition or results of operations.

The home furnishings industry remains extremely competitive with respect to both the sourcing of products and the retail sale of those products. Domestic manufacturers continue to face pricing pressures as a result of the manufacturing capabilities developed during recent years in other countries, specifically within Asia. In response to these pressures, a large number of U.S. furniture manufacturers and retailers, including us, have increased their overseas sourcing activities in an attempt to maintain a competitive advantage and retain market share. At the present time, we domestically manufacture and/or assemble approximately 65% of our products. We continue to believe that a balanced approach to product sourcing, which includes the domestic manufacture of certain product offerings coupled with the import of other selected products, provides the greatest degree of flexibility and is the most effective approach to ensuring that acceptable levels of quality, service and value are attained.

In addition, we believe that our retail strategy, which involves (i) a continued focus on providing a wide array of product solutions and superior customer service, (ii) the opening of new or relocated design centers in more prominent locations, while encouraging independent retailers to do the same, (iii) the implementation of design teams within our retail network, and (iv) further expansion internationally, provides an opportunity to further grow our business.

Further discussion of the home furnishings industry has been included under Item 1 of this Annual Report.

**Recent Accounting Pronouncements**

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141(R)), which replaces SFAS No. 141. SFAS No. 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is to be applied prospectively to business combinations for which the acquisition date is on or after an entity's fiscal year that begins after December 15, 2008 (July 1, 2009 for the Company). The impact of this Statement on the Company's financial position, results of operations and cash flows will be dependent on the terms, conditions and details of such acquisitions.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which allows the Company to choose to measure selected financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. We adopted SFAS No. 159 on July 1, 2008 and have not elected the permitted fair value measurement provisions of this statement.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157"), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements, yet does not require any new fair value measurements. In February 2008, the FASB issued FASB Staff Position No. 157-2 ("FSP No. 157-2"), which delayed the effective date of SFAS No. 157 as it relates to non-financial assets and non-financial liabilities until July 1, 2009 for the Company, except for items that are recognized or disclosed at fair value by the Company on a recurring basis. Effective July 1, 2008, the

Company adopted the provisions of SFAS No. 157, except as it relates to those non-financial assets and non-financial liabilities excluded under FSP No. 157-2. Those excluded items for which the

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Company has not applied the fair value provisions of SFAS No. 157 include goodwill and other intangible assets (note 6), assets held for sale (note 2), liabilities for exit or disposal activities (note 2), and business acquisitions (note 3). The Company is currently evaluating the impact of this statement on the Company's financial position, results of operations and cash flows as it relates to non-financial assets and non-financial liabilities. This pronouncement became effective for us on July 1, 2008. See note 18 for more information.

In June 2008, the FASB issued FASB Staff Position No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*, which requires that unvested share-based payment awards containing non-forfeited rights to dividends be included in the computation of earnings per common share. The adoption of FSB EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years (July 1, 2009 for the Company). Retrospective application is required. We are evaluating this pronouncement but do not expect it to impact basic or diluted earnings per share.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to market risks relating to fluctuations in interest rates and foreign currency exchange rates.

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

For floating-rate obligations, interest rate changes do not affect the fair value of the underlying financial instrument but do impact future earnings and cash flows, assuming other factors are held constant. Conversely, for fixed-rate obligations, interest rate changes affect the fair value of the underlying financial instrument but do not impact earnings or cash flows. At June 30, 2009, we had no floating-rate debt obligations outstanding. As of that same date, our fixed-rate debt obligations consist, primarily, of the Senior Notes issued on September 27, 2005. The estimated fair value of the Senior Notes as of June 30, 2009, which is based on changes, if any, in interest rates and our creditworthiness subsequent to the date on which the debt was issued, and which has been determined using quoted market prices, was \$146 million as compared to a carrying value of \$199 million.

Foreign currency exchange risk is primarily limited to our operation of five Ethan Allen-operated retail design centers located in Canada as substantially all purchases of imported parts and finished goods are denominated in United States dollars. As such, gains or losses resulting from market changes in the value of foreign currencies have not had, nor are they expected to have, a material effect on our consolidated results of operations.

Historically, we have not entered into financial instrument, including derivative, transactions for trading or other speculative purposes or to manage interest rate or currency exposure. However, in connection with the issuance of the Senior Notes, Global, in July and August 2005, entered into 6 separate forward contracts to hedge the risk-free interest rate associated with \$108.0 million of the related debt in order to minimize the negative impact of interest rate fluctuations on earnings, cash flows and equity. The forward contracts were entered into with a major banking institution thereby mitigating the risk of credit loss. Upon issuance of the Senior Notes in September 2005, the related forward contracts were settled. At the present time, we have no current plans to engage in further hedging activities.

**Item 8. Financial Statements and Supplementary Data**

Our Consolidated Financial Statements and Supplementary Data are listed under Item 15 of this Annual Report.

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**Report of Independent Registered Public Accounting Firm**

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

We have audited the accompanying consolidated balance sheets of Ethan Allen Interiors Inc. and subsidiaries (the "Company") as of June 30, 2009 and 2008, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended June 30, 2009. We also have audited the Company's internal control over financial reporting as of June 30, 2009, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures

may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ethan Allen Interiors Inc. and subsidiaries as of June 30, 2009 and 2008, and the results of its operations and their cash flows for each of the years in the three-year period ended June 30, 2009, in conformity with U.S. generally accepted accounting principles. Also in our opinion, Ethan Allen Interiors, Inc. and

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subsidiaries maintained, in all material respects, effective internal control over financial reporting as of June 30, 2009, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

As discussed in Notes 1 and 12 to the consolidated financial statements, effective July 1, 2007, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109.

/s/ KPMG LLP

Stamford, Connecticut  
August 24, 2009

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**ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES**  
**Consolidated Balance Sheets**  
**June 30, 2009 and 2008**  
(In thousands, except share data)

	2009	2008
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 52,960	\$ 74,376
Accounts receivable, less allowance for doubtful accounts of \$1,362 at June 30, 2009 and \$2,535 at June 30, 2008	13,086	12,672
Inventories (note 4)	156,519	186,265
Prepaid expenses and other current assets	21,060	32,860
Deferred income taxes (note 12)	8,077	6,125
Total current assets	251,702	312,298
Property, plant and equipment, net (note 5)	333,599	350,432
Goodwill and other intangible assets (notes 3 and 6)	45,128	96,823
Other assets	16,056	4,540
Total assets	<u>\$ 646,485</u>	<u>\$ 764,093</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt (note 7)	\$ 42	\$ 41
Customer deposits	31,691	47,297
Accounts payable	22,199	26,444
Accrued compensation and benefits	29,533	32,568
Accrued expenses and other current liabilities	28,998	29,152
Total current liabilities	112,463	135,502
Long-term debt (note 7)	203,106	202,988
Other long-term liabilities	24,993	27,924
Deferred income taxes (note 12)	—	21,906
Total liabilities	340,562	388,320
Shareholders' equity (notes 9, 10, 11 and 15):		
Class A common stock, par value \$.01, 150,000,000 shares authorized, 48,334,870 shares issued at June 30, 2009 and 48,251,780 shares issued at June 30, 2008	483	482
Class B common stock, par value \$.01, 600,000 shares authorized; no shares issued and outstanding at June 30, 2009 and June 30, 2008	—	—
Preferred stock, par value \$.01, 1,055,000 shares authorized, no shares issued and outstanding at June 30, 2009 and 2008	—	—
Additional paid-in capital	356,446	354,725
Less: Treasury stock (at cost), 19,380,941 shares at June 30, 2009 and 19,656,901 shares at June 30, 2008	(583,220)	(588,783)
Retained earnings	531,747	606,648
Accumulated other comprehensive income	467	2,701
Total shareholders' equity	305,923	375,773
Total liabilities and shareholders' equity	<u>\$ 646,485</u>	<u>\$ 764,093</u>

See accompanying notes to consolidated financial statements.

**ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES**  
**Consolidated Statements of Operations**  
**For Years Ended June 30, 2009, 2008 and 2007**  
(In thousands, except per share data)

	2009	2008	2007
Net Sales	\$ 674,277	\$ 980,045	\$ 1,005,312
Cost of sales	326,935	453,980	478,729
Gross profit	347,342	526,065	526,583
Operating expenses:			
Selling	182,800	229,590	223,146
General and administrative	170,312	193,639	178,876
Goodwill impairment (note 6)	48,400	—	—
Restructuring and impairment charge (note 2)	18,601	6,836	13,442
Total operating expenses	420,113	430,065	415,464
Operating income (loss)	(72,771)	96,000	111,119
Interest and other miscellaneous income, net	3,355	7,891	10,369
Interest and other related financing costs (note 7)	11,764	11,713	11,762
Income (loss) before income taxes	(81,180)	92,178	109,726
Income tax expense (benefit) (note 12)	(28,493)	34,106	40,499
Net income (loss)	\$ (52,687)	\$ 58,072	\$ 69,227
Per share data (notes 10 and 17):			
Net income (loss) per basic share	\$ (1.83)	\$ 1.98	\$ 2.19
Basic weighted average common shares	28,814	29,267	31,566
Net income (loss) per diluted share	\$ (1.83)	\$ 1.97	\$ 2.15
Diluted weighted average common shares	28,814	29,470	32,261
Dividends declared per common share	\$ 0.65	\$ 0.88	\$ 0.80

See accompanying notes to consolidated financial statements.

**ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
**For the years Ended June 30, 2009, 2008 and 2007**  
(In thousands)

	2009	2008	2007
Operating activities			
Net income (loss)	\$ (52,687)	\$ 58,072	\$ 69,227
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	25,635	24,670	23,013
Compensation expense related to share-based awards	1,719	1,260	821
Provision (benefit) for deferred income taxes	(32,158)	(2,364)	200
Excess tax benefits from shared-based awards	—	(2,093)	(5,015)
Goodwill impairment	48,400	—	—
Restructuring and impairment charge	7,038	1,762	9,439
(Gain) loss on disposal of property, plant and equipment	1,001	110	(391)
Other	198	221	500
Changes in operating assets and liabilities, net of effects of acquired businesses:			
Accounts receivable	(776)	618	6,677
Inventories	31,428	(91)	14,531
Prepaid and other current assets	10,627	3,626	220
Other assets	1,354	660	657
Customer deposits	(16,266)	(9,086)	(4,201)
Accounts payable	(3,835)	3,230	(4,334)
Accrued expenses and other current liabilities	3,590	(3,784)	7,993
Other liabilities	(3,335)	9,326	(148)
Net cash provided by operating activities	21,933	86,137	119,189



Investing activities:			
Proceeds from the disposal of property, plant and equipment	6,384	6,943	5,431
Capital expenditures	(22,537)	(60,038)	(59,073)
Acquisitions	(1,366)	(7,777)	(15,297)
Other	(7)	(462)	198
Net cash used in investing activities	(17,526)	(61,334)	(68,741)
Financial activities:			
Payments on long-term debt and capital lease obligations	(41)	(40)	(38)
Purchases and retirements of company stock	—	(75,577)	(57,152)
Proceeds from the issuance of common stock	2	474	521
Excess tax benefits from share-based payment arrangements	—	2,093	5,015
Payment of deferred financing costs	(1,380)	—	(107)
Payment of cash dividends	(23,617)	(25,495)	(24,797)
Net cash used in financing activities	(25,036)	(98,545)	(76,558)
Effect of exchange rate changes on cash	(787)	239	188
Net increase (decrease) in cash and cash equivalents	(21,416)	(73,503)	(25,922)
Cash and cash equivalents — beginning of year	74,376	147,879	173,801
Cash and cash equivalents — end of year	\$ 52,960	\$ 74,376	\$ 147,879
Supplemental cash flow information:			
Income taxes paid	\$ 8,237	\$ 33,618	\$ 37,561
Interest paid	\$ 11,098	\$ 11,132	\$ 11,173

See accompanying notes to consolidated financial statements.

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**ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES**  
**Consolidated Statements of Shareholders' Equity**  
**For the Years Ended June 30, 2009, 2008 and 2007**  
(In thousands, except share data)

	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance as of June 30, 2006	\$ 467	\$ 307,852	\$ (421,308)	\$ 935	\$ 529,496	\$ 417,442
Issuance of 767,938 common shares upon the exercise of share-based awards (notes 9 and 11)	7	16,388	—	—	—	16,395
Compensation expense associated with share-based awards (notes 9 and 11)	—	821	—	—	—	821
Tax benefit associated with exercise of share-based awards (notes 9, 11 and 12)	—	5,015	—	—	—	5,015
Charge for early vesting of share-based awards	—	22	—	—	—	22
Treasury shares issued in connection with retail design center acquisition (26,269 shares) (note 3)	—	170	765	—	—	935
Purchase/retirement of 2,104,231 shares of company stock (note 9)	—	—	(75,462)	—	—	(75,462)
Dividends declared on common stock	—	—	—	—	(25,188)	(25,188)
Other comprehensive income (loss) (notes 7 and 15)						
Currency translation adjustments	—	—	—	387	—	387
Loss on derivatives, net-of-tax	—	—	—	48	—	48
Net income	—	—	—	—	69,227	69,227
Total comprehensive income	—	—	—	—	—	69,662
Balance as of June 30, 2007	474	330,268	(496,005)	1,370	573,535	409,642
Issuance of 770,337 common shares upon the exercise of share-based awards (notes 9 and 11)	8	21,104	—	—	—	21,112
Compensation expense associated with share-based awards (notes 9 and 11)	—	1,260	—	—	—	1,260
Tax benefit associated with exercise of share-based awards (notes 9, 11 and 12)	—	2,093	—	—	—	2,093
FIN 48 transition adjustment	—	—	—	—	683	683
Purchase/retirement of 2,921,319 shares of company stock (note 9)	—	—	(92,778)	—	—	(92,778)
Dividends declared on common stock	—	—	—	—	(25,642)	(25,642)
Other comprehensive income (loss) (notes 7 and 15)						
Currency translation adjustments	—	—	—	1,283	—	1,283
Loss on derivatives, net-of-tax	—	—	—	48	—	48
Net income	—	—	—	—	58,072	58,072
Total comprehensive income	—	—	—	—	—	59,403
Balance as of June 30, 2008	482	354,725	(588,783)	2,701	606,648	375,773
Issuance of 90 common shares upon the exercise of share-based awards (notes 9 and 11)	1	2	—	—	—	3
Compensation expense associated with share-based awards (notes 9 and 11)	—	1,719	—	—	—	1,719
Tax benefit associated with exercise of share-based awards (notes 9, 11 and 12)	—	—	—	—	—	—

Issuance of treasury shares for 401k match	—	—	5,563	—	(3,431)	2,132
Dividends declared on common stock	—	—	—	—	(18,783)	(18,783)
Other comprehensive income (loss) (note 15)						
Currency translation adjustments	—	—	—	(2,282)	—	(2,282)
Loss on derivatives, net-of-tax	—	—	—	48	—	48
Net income	—	—	—	—	(52,687)	(52,687)
Total comprehensive income						52,120
Balance at June 30, 2009	\$ 483	\$ 356,446	\$ (583,220)	\$ 467	\$ 531,747	\$ 305,923

See accompanying notes to consolidated financial statements.

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**ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**June 30, 2009, 2008 and 2007**

**(1) Summary of Significant Accounting Policies**

Basis of Presentation

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

Nature of Operations

We are a leading manufacturer and retailer of quality home furnishings and accessories, offering a full complement of home decorating and design solutions. We sell our products through one of the country’s largest home furnishing retail networks with a total of 293 retail design centers, of which 159 are Company-operated and 134 are independently operated. Nearly all of our Company-operated retail design centers are located in the United States, with the remaining design centers located in Canada. The majority of the independently operated design centers are also located in the United States, with the remaining design centers located throughout Asia, Canada and the Middle East. We have ten manufacturing facilities, two of which include separate sawmill operations, located throughout the United States and one in Mexico.

Use of Estimates

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Due to the inherent uncertainty involved in making those estimates, actual results could differ from those estimates. Areas in which significant estimates have been made include, but are not limited to, revenue recognition, the allowance for doubtful accounts receivable, inventory obsolescence, tax valuation allowances, useful lives for property, plant and equipment and definite lived intangible assets, goodwill and indefinite lived intangible asset impairment analyses, the evaluation of uncertain tax positions and the fair value of assets acquired and liabilities assumed in business combinations.

Reclassifications

Certain prior year amounts have been reclassified in order to conform to the current year’s presentation. These changes were made for disclosure purposes only and did not have any impact on previously reported results of operations or shareholders’ equity.

Cash Equivalents

Cash and short-term, highly-liquid investments with original maturities of three months or less are considered cash and cash equivalents. We invest excess cash in money market accounts, short-term commercial paper, and U.S. Treasury Bills.

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Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market. Cost is determined based solely on those charges incurred in the acquisition and production of the related inventory (i.e. material, labor and manufacturing overhead costs).

Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation of plant and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. Estimated useful lives of the respective assets typically range from twenty to forty years for buildings and improvements and from three to twenty years for machinery and equipment. Leasehold improvements are amortized based on the underlying lease term, or the asset’s estimated useful life, whichever is shorter.

Operating Leases

We account for our operating leases in accordance with the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 13, *Accounting for Leases*, which require minimum lease payments be recognized on a straight-line basis, beginning on the date that the lessee takes possession or control of the property. A number of our operating lease agreements contain provisions for tenant improvement allowances, rent holidays, rent concessions, and/or rent escalations.

Incentive payments received from landlords are recorded as deferred lease incentives and are amortized over the underlying lease term on a straight-line basis as a reduction of rent expense. When the terms of an operating lease provide for periods of free rent, rent concessions, and/or rent escalations, we establish a deferred rent liability for the difference between the scheduled rent payment and the straight-line rent expense recognized. This deferred rent liability is also amortized over the underlying lease term on a straight-line basis as a reduction of rent expense.

## Retail Design Center Acquisitions

We account for the acquisition of retail design centers and related assets in accordance with SFAS No. 141, *Business Combinations*, which requires application of the purchase method for all business combinations initiated after June 30, 2001. Accounting for these transactions as purchase business combinations requires the allocation of purchase price paid to the assets acquired and liabilities assumed based on their fair values as of the date of the acquisition. The amount paid in excess of the fair value of net assets acquired is accounted for as goodwill.

## Goodwill and Other Intangible Assets

Our intangible assets are accounted for in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, and are comprised, primarily, of goodwill, which represents the excess of cost over the fair value of net assets acquired, and trademarks. In re-assessing the useful lives of our goodwill and other intangible assets upon adoption of SFAS No. 142, we determined these assets to have indefinite useful lives. Accordingly, amortization of these assets ceased on that date. Prior to the adoption date (July 1, 2001), these assets were amortized on a straight-line basis over forty years. We conduct an annual impairment analysis the first of April each fiscal year, unless events occur or circumstances change that would more likely than not reduce the fair value of the goodwill or other intangible asset below its carrying value. See note 6 for additional information.

## Financial Instruments

Due to their short-term nature, the carrying value of our cash and cash equivalents, receivables and payables, short-term debt and customer deposit liabilities approximates fair value. The estimated fair value of our long-term debt, which is based on changes, if any, in interest rates and our creditworthiness subsequent to the date on

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which the debt was issued, and which has been determined using quoted market prices, totaled \$146.0 million at June 30, 2009 and \$182.1 million and at June 30, 2008, as compared to a carrying value on those dates of \$199.0 million and \$198.8 million, respectively. See Note 7 for a discussion of the change in July 2007 of our credit rating.

## Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Effective July 1, 2007, we adopted Financial Accounting Standards Board ("FASB") Interpretation No. ("FIN") 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109, *Accounting for Income Taxes*, which provides a comprehensive model for the recognition, measurement, presentation, and disclosure in a company's financial statements of uncertain tax positions taken, or expected to be taken, on a tax return. If an income tax position exceeds a 50% probability of success upon tax audit, based solely on the technical merits of the position, the company recognizes an income tax benefit in its financial statements. The tax benefits recognized are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

The liability associated with an unrecognized tax benefit is classified as a long-term liability except for the amount for which a cash payment is expected to be made or tax positions settled within one year. We recognize interest and penalties related to income tax matters as a component of income tax expense.

## Revenue Recognition

Revenue is recognized when all of the following have occurred: persuasive evidence of a sales arrangement exists (e.g. a wholesale purchase order or retail sales invoice); the sales arrangement specifies a fixed or determinable sales price; product is shipped or services are provided to the customer; and collectibility is reasonably assured. As such, revenue recognition occurs upon the shipment of goods to independent retailers or, in the case of Ethan Allen-operated retail design centers, upon delivery to the customer.

## Shipping and Handling Costs

Our policy is to sell our products at the same delivered cost to all retailers nationwide, regardless of shipping point. Costs incurred to deliver finished goods to the consumer are expensed and recorded in selling, general and administrative expenses. Shipping and handling costs amounted to \$68.2 million, \$87.4 million, and \$87.6 million for fiscal years 2009, 2008, and 2007, respectively.

## Advertising Costs

Advertising costs are expensed when first aired or distributed. Our total advertising costs incurred in fiscal years 2009, 2008 and 2007, amounted to \$25.1 million, \$39.4 million, and \$35.9 million, respectively. These amounts are presented net of proceeds received by us under our agreement with the third-party financial institution responsible for administering our consumer finance programs. Prepaid advertising costs at June 30, 2009 and 2008 totaled \$0.9 million and \$1.6 million, respectively.

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## Earnings Per Share

We compute basic earnings per share by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated similarly, except that the weighted average outstanding shares are adjusted to include the effects of converting all potentially dilutive share-based awards issued under our employee stock plans (see Notes 10 and 11).

## Share-Based Compensation

Effective July 1, 2005, share-based awards are accounted for in accordance with the recognition and measurement provisions of SFAS No. 123 (revised 2004), *Share-Based Payment* ("SFAS No. 123(R)"), which replaced SFAS No. 123, *Accounting for Stock-Based Compensation*, and superseded Accounting Principles Board Opinion ("APB") No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. SFAS No. 123(R) requires compensation costs related to share-based payment transactions, including employee stock options, to be recognized in the financial statements.

In adopting SFAS No. 123(R) on July 1, 2005, we applied the modified prospective approach to transition. Under the modified prospective approach, the provisions of SFAS

No. 123(R) are to be applied to new awards and to awards modified, repurchased, or cancelled after the required effective date. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of the required effective date is recognized as the requisite service is rendered on or after the required effective date. The compensation cost for that portion of awards is based on the grant-date fair value of those awards as calculated for either recognition or pro-forma disclosures under SFAS No. 123.

We estimate, as of the date of grant, the fair value of stock options awarded using the Black-Scholes option-pricing model. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs, including anticipated changes in the underlying stock price (i.e. expected volatility) and option exercise activity (i.e. expected life). Expected volatility is based on the historical volatility of our stock and other contributing factors. The expected life of options granted, which represents the period of time that the options are expected to be outstanding, is based, primarily, on historical data.

Share-based compensation expense is included in the Consolidated Statements of Operations within selling, general and administrative expenses. Tax benefits associated with our share-based compensation arrangements are included in the Consolidated Statements of Operations within income tax expense.

All shares of our common stock received in connection with the exercise of share-based awards have been recorded as treasury stock and result in a reduction in shareholders' equity.

#### Foreign Currency Translation

The functional currency of each Company-operated foreign retail location is the respective local currency. Assets and liabilities are translated into United States dollars using the current period-end exchange rate and income and expense amounts are translated using the average exchange rate for the period in which the transaction occurred. Resulting translation adjustments are reported as a component of accumulated other comprehensive income within shareholders' equity.

#### Derivative Instruments

We account for derivative instruments in accordance with SFAS No. 133, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, and SFAS No. 138, which later amended SFAS No. 133. Upon review of our contracts as of June 30, 2009, we have determined that we have no derivative instruments.

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#### Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141(R)), which replaces SFAS No. 141. SFAS No. 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is to be applied prospectively to business combinations for which the acquisition date is on or after an entity's fiscal year that begins after December 15, 2008 (July 1, 2009 for the Company). The impact of this Statement on the Company's financial position, results of operations and cash flows will be dependent on the terms, conditions and details of such acquisitions.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which allows the Company to choose to measure selected financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. We adopted SFAS No. 159 on July 1, 2008 and have not elected the permitted fair value measurement provisions of this statement.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157"), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements, yet does not require any new fair value measurements. In February 2008, the FASB issued FASB Staff Position No. 157-2 ("FSP No. 157-2"), which delayed the effective date of SFAS No. 157 as it relates to non-financial assets and non-financial liabilities until July 1, 2009 for the Company, except for items that are recognized or disclosed at fair value by the Company on a recurring basis. Effective July 1, 2008, the Company adopted the provisions of SFAS No. 157, except as it relates to those non-financial assets and non-financial liabilities excluded under FSP No. 157-2. Those excluded items for which the Company has not applied the fair value provisions of SFAS No. 157 include goodwill and other intangible assets (note 6), assets held for sale (note 2), liabilities for exit or disposal activities (note 2), and business acquisitions (note 3). The Company is currently evaluating the impact of this statement on the Company's financial position, results of operations and cash flows as it relates to non-financial assets and non-financial liabilities. This pronouncement became effective for us on July 1, 2008. See note 18 for more information.

In June 2008, the FASB issued FASB Staff Position No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*, which requires that unvested share-based payment awards containing non-forfeited rights to dividends be included in the computation of earnings per common share. The adoption of FSB EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years (July 1, 2009 for the Company). Retrospective application is required. We are evaluating this pronouncement but do not expect it to impact basic or diluted earnings per share.

#### **(2) Restructuring and Impairment Charges**

In recent years, we have announced and executed plans to consolidate our operations as part of an overall strategy to maximize production efficiencies and maintain our competitive advantage.

In 2009, the Company made several announcements on changes to our operations as we continue to improve the structure of our business especially in light of the recent economic downturn. In January 2009, the Company announced a plan to consolidate the operations of its Eldred, Pennsylvania upholstery manufacturing plant and several of its retail service centers. In June 2009, the Company announced the consolidation of its Chino, California operations into its Maiden, North Carolina facility and the consolidation of its Andover, Maine sawmill and dimension mill to its Beecher Falls, Vermont sawmill and dimension mill operations. For these fiscal

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2009 actions, the Company estimates pre-tax restructuring, impairment, and other related charges will ultimately approximate \$30 million, consisting of \$15 million in write down of long-lived assets, \$8 million in employee severance and other payroll and benefit costs, and \$7 million in other associated costs. By segment, we expect \$23 million in costs for the wholesale segment and \$7 million for the retail segment. Total costs for these 2009 actions in the current fiscal year by segment are \$17.0 million for Wholesale, and \$2.6 million for Retail all of which have been classified in the Statement of Operations as restructuring and impairment charges. Approximately 800 employee positions and 140 contract worker positions will be eliminated due to these actions.

In January 2008, we announced a plan to consolidate the operations of certain Company-operated retail design centers and retail service centers. In connection with this initiative, we have permanently ceased operations at ten design centers and six retail service centers which, for the most part, were consolidated into other existing operations.

We also implemented our design team concept across the Retail division at the end of the fiscal year. We recorded pre-tax restructuring, impairment, and other related charges of \$6.8 million for fiscal 2008, with \$3.3 million for lease cancellation and other costs which will be paid out over periods ranging from less than one to seven years, \$2.7 million, which was non-cash in nature, related to fixed asset impairment charges, primarily for real property and leasehold improvements, and \$0.9 million was related to employee severance and benefits. During fiscal 2009, we recorded a net reduction of pre-tax restructuring, impairment, and other related charges of \$1.0 million, primarily due to net gains on the sale of real estate of \$4.2 million, partly offset by additional charges and adjustments to previous estimates for leased facilities of \$2.3 million and employee severance, benefits and other charges of \$0.5 million. Cumulative charges to date for these actions total \$5.5 million, all of which have been classified in the Statement of Operations as restructuring and impairment charges. In addition to the Retail charges, \$0.4 million was recorded in the first quarter of fiscal 2009 to update the fair value of a wholesale plant site held for sale. These charges are reported to together in the following table.

On September 6, 2006, we announced a plan to close our Spruce Pine, North Carolina case goods manufacturing facility and convert our Atoka, Oklahoma upholstery manufacturing facility into a regional distribution center. The decision impacted approximately 465 employees. We recorded a pre-tax restructuring and impairment charge of \$14.1 million during the quarter ended September 30, 2006, of which \$4.0 million was related to employee severance and benefits and other plant exit costs, and \$10.1 million of fixed asset impairment charges. During the first six months of fiscal 2007, adjustments totaling \$0.4 million were recorded to reverse remaining previously established accruals which were no longer deemed necessary.

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Activity in the Company's restructuring reserves is summarized in the table below (in thousands) and is classified with accrued expenses and other current liabilities in the Consolidated Balance Sheets:

	Balance June 30, 2008	New charges (credits)	Utilized	Adjust- ments	Balance June 30, 2009
<b>2009 Actions</b>					
Employee severance, other payroll and benefit costs	\$ —	\$ 7,849	\$ (3,985)	\$ —	\$ 3,864
Other plant exit costs	—	825	(171)	—	654
Write down of long-lived assets	—	11,347	(10,921)	(426)	—
	<u>\$ —</u>	<u>\$ 20,021</u>	<u>\$ (15,077)</u>	<u>\$ (426)</u>	<u>\$ 4,518</u>
<b>2008 Actions</b>					
Employee severance, other payroll and benefit costs	\$ —	\$ 369	\$ —	\$ —	\$ 369
Other plant exit costs	3,358	1,677	(2,769)	626	2,892
Write down of long-lived assets	—	(4,080)	3,664	416	—
	<u>\$ 3,358</u>	<u>\$ (2,034)</u>	<u>\$ 895</u>	<u>\$ 1,042</u>	<u>\$ 3,261</u>

### (3) Business Acquisitions

The Company's business acquisition practice with respect to independent retail design centers is to selectively acquire, at market value, design centers located in markets of strategic interest to the Company. The Company does not actively pursue acquisitions, but is sometimes approached by independent retailers who are retiring. Acquisitions are subject to a contractual holdback, or reconciliation, period, during which the parties to the transaction may agree to certain normal and customary purchase accounting adjustments. Goodwill associated with our acquisitions represents the premium paid to the seller related to the acquired business (i.e. market presence). See Note 6 for further discussion of our goodwill and other intangible assets.

During fiscal 2009, we acquired, in four separate transactions, four Ethan Allen retail design centers ("DCs") from independent retailers for consideration of approximately \$1.8 million in cash and forgiveness of receivables, and assumed customer deposits of \$0.7 million and other liabilities of \$0.2 million.

During fiscal 2008, we acquired, in two separate transactions, five Ethan Allen retail design centers ("DCs") from independent retailers for consideration of approximately \$4.2 million in cash and forgiveness of receivables, and assumed customer deposits of \$4.3 million and other liabilities of \$0.1 million.

Also in fiscal 2008, we acquired a cut and sew upholstery facility from Americraft Leather in order to strengthen the Company's vertically integrated structure and secure an additional reliable source for our leather products. Total consideration of approximately \$4.3 million was paid in cash for the acquisition. The facility, which contains 40,000 square feet of manufacturing space and employs 165 people, is located in Guanajuato, Mexico.

During fiscal 2007, we acquired, in seven separate transactions, twelve Ethan Allen retail design centers from independent retailers for total consideration of approximately \$17.0 million in cash and forgiveness of receivables.

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A summary of our allocation of purchase price in each of the last three fiscal years is provided below (in thousands):

	Fiscal Year Ended June 30, 2008			2007
	2009 Retail	Wholesale	Retail	Retail
Business segment				
Total consideration	\$ 1,841	\$ 4,298	\$ 4,182	\$ 16,957
Assets acquired (liabilities assumed)				
Inventory	1,682	1,054	3,236	6,765
PP&E and other assets	242	2,707	1,029	9,177
Customer deposits	(660)	—	(4,311)	(3,070)
A/P and other liabilities	(186)	(100)	34	(425)
Goodwill	<u>\$ 763</u>	<u>\$ 637</u>	<u>\$ 4,194</u>	<u>\$ 4,510</u>

### (4) Inventories

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

2009	2008
------	------



Finished goods	\$ 130,180	\$ 153,981
Work in process	7,476	5,985
Raw materials	18,863	26,299
	<u>\$ 156,519</u>	<u>\$ 186,265</u>

Inventories are presented net of a related valuation allowance of \$2.2 million at June 30, 2009 and \$2.3 million at June 30, 2008

#### (5) Property, Plant and Equipment

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

	2009	2008
Land and improvements	\$ 92,903	\$ 89,352
Buildings and improvements	392,940	382,354
Machinery and equipment	110,057	120,243
	595,900	591,949
Less: accumulated depreciation and amortization	(262,301)	(241,517)
	<u>\$ 333,599</u>	<u>\$ 350,432</u>

#### (6) Goodwill and Other Intangible Assets

As of June 30, 2009, we had goodwill and other indefinite-lived intangible assets of \$25.4 million and \$19.7 million, respectively. Comparable balances as of June 30, 2008 were \$77.1 million and \$19.7 million, respectively. Goodwill in the wholesale and retail segments was \$25.4 million and \$0 million, respectively, at June 30, 2009 and \$28.2 million and \$48.9 million, respectively, at June 30, 2008. The wholesale segment, at both dates, includes additional indefinite-lived intangible assets of \$19.7 million, which represent Ethan Allen trade names.

In accordance with SFAS No. 142, we do not amortize goodwill or other indefinite-lived intangible assets but, rather, we conduct an annual impairment analysis of goodwill and other indefinite lived intangible assets the first of April each fiscal year, unless events occur or circumstances change that would more likely than not reduce the fair value of the goodwill or other indefinite lived intangible assets below their carrying value. In determining whether an interim test is appropriate, management considers several factors including changes in the Company's stock price, financial performance, third party ratings on its long term debt, and expected financial outlook of the business. Methods employed to value the enterprise and the Company's retail and wholesale segments include the market approach and the income approach, which are reconciled with the total market capitalization of the Company. These valuation methods use historical revenues and cash flows, as well as Company and external

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analysts' financial projections and apply discount rates, weighted average cost of capital rates, total invested capital multiples, and premium control multiples. Fair value of our trade name is valued using the relief-from-royalty method. Significant factors used in trade name valuation are royalty rates, future growth and discount rates, and expense rates.

In the fiscal quarter ended December 31, 2008, net sales declined 7.9% from the previous quarter and there was a meaningful decline (34.5%) in the company's average stock price from the first fiscal quarter to the second (from \$26.35 to \$17.27). This decline coupled with the sudden and dramatic change in the business climate as seen through the financial crisis with global banking institutions led to an interim evaluation of goodwill and other intangible assets. As a result of these tests, management concluded that the estimated value of the wholesale and retail segments exceeded their carrying values and no impairment was indicated.

In the fiscal quarter ended March 31, 2009, net sales declined 26.0% from the previous quarter resulting in a 660 basis point decline in gross margin plus a further decline (36.2%) in the company's average stock price (from \$17.27 to \$11.02). These declines coupled with a significant loss from operations led to a second interim evaluation of goodwill and other intangible assets. As a result of these tests, management concluded the carrying value of goodwill on our retail division's books exceeded its fair value. Therefore, we recorded a non-cash impairment charge of \$48.4 million. No impairment of the goodwill or other indefinite lived assets on our wholesale division's books was appropriate.

In the fiscal quarter ended June 30, 2009, the Company performed its annual impairment test on April 1 and noted no additional impairment was appropriate. During the quarter, business performance stabilized with net sales slightly lower (1%) than the previous quarter, gross margin improved 160 basis points and there was a slight increase in cash on hand (to \$53 million). The average price of our stock increased 9.8% (from \$11.02 to \$12.11). The ratings on the Company's long term debt were lowered by third parties to speculative grade and the Company updated its forecasts. The Company considered these factors and concluded that an interim impairment test was not required on the wholesale segment. No additional evaluation of the retail segment was appropriate as all goodwill was written off in the previous fiscal quarter.

There can be no assurance that the outcome of future reviews will not result in substantial impairment charges. Impairment assessment inherently involves judgments as to assumptions about expected future cash flows and the impact of market conditions on those assumptions. Future events and changing market conditions may impact our assumptions as to prices, costs or other factors that may result in changes in our estimates of future cash flows. Although we believe the assumptions we use in testing for impairment are reasonable, significant changes in any of our assumptions could produce a significantly different result.

#### (7) Borrowings

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

	2009	2008
5.375% Senior Notes due 2015	\$ 198,997	\$ 198,837
Industrial revenue bonds	3,855	3,855
Other debt obligations	296	337
Total debt	203,148	203,029
Less: current maturities	42	41
Total long-term debt	<u>\$ 203,106</u>	<u>\$ 202,988</u>

#### [Senior Notes](#)

On September 27, 2005, we completed a private offering of \$200.0 million of ten-year senior unsecured notes due 2015 (the "Senior Notes"). The Senior Notes were offered by Global and have an annual coupon rate of 5.375% with interest payable semi-annually in arrears on April 1 and October 1 of each year. Proceeds received in connection with the issuance of the Senior Notes, net of a related discount of \$1.6 million, totaled \$198.4 million.

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We used the net proceeds from the offering to expand our retail network, invest in our manufacturing and logistics operations, and for other general corporate purposes. As of June 30, 2009, outstanding borrowings related to this transaction have been included in the Consolidated Balance Sheets within long-term debt. The discount on the Senior Notes is being amortized to interest expense over the life of the related debt as is debt issuance costs of \$2.0 million primarily for banking, legal, accounting, rating agency, and printing services and \$0.8 million of losses on settled forward contracts entered in conjunction with this debt issuance.

The Senior Notes may be redeemed in whole or in part, at Global's option at any time at the greater of (i) 100% of the principal amount of the notes to be redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the Senior Notes to be redeemed, discounted to the date of redemption on a semi-annual basis at the applicable treasury rate plus 20 basis points, plus, in each case, accrued and unpaid interest to the redemption date. In the event of default, the trustee or the holders of 25% of the outstanding principal amount of the Senior Notes may accelerate payment of principal, premium, if any, and accrued and unpaid interest. Events of default include failure to pay in accordance with the terms of the indenture, including failure, under certain circumstances, to pay indebtedness other than the Senior Notes.

### Revolving Credit Facility

On January 29, 2009, the Company amended its July 2005 five-year, \$200 million unsecured revolving credit facility. The Amendment reduced the line to \$100 million, and contained various operating and financial covenants. On April 29, 2009 the Company terminated the revolving credit facility, due to the Company's desire to have in place a revolver that provided greater flexibility. On May 29, 2009, the Company entered into a new three-year, \$40 million senior secured asset-based revolving credit facility ("the Facility"). The Facility provides revolving credit financing of up to \$40 million, subject to borrowing base availability, and includes an accordion feature which, if exercised, would provide up to an additional \$20 million of financing.

At the Company's option, revolving loans under the Agreement bear interest at an annual rate of either:

- (a) London Interbank Offered rate ("LIBOR") plus 3.25% to 4.25%, based on the average availability, or
- (b) the higher of (i) a prime rate, (ii) the federal funds effective rate plus 0.50%, or (iii) a LIBOR rate plus 1.00% plus, in each case, an additional 2.25% to 3.25%, based on average availability.

The Company will pay a commitment fee of 0.50% per annum on the unused portion of the Facility and participation fees on issued letters of credit at an annual rate of 1.625% to 4.25%, based on the average availability and the letter of credit type, and a fronting fee of 0.125% per annum.

The borrowing base at any time equals the sum of: up to 90% of eligible credit card receivables; plus up to 85% of eligible accounts receivable; plus up to 85% of the net orderly liquidation value of eligible inventory.

The Facility is secured by all property owned, leased or operated by the Company in the United States excluding any real property owned by the Company and also excludes any intellectual property owned by the Company unless availability is less than or equal to \$17.5 million.

The Facility contains customary covenants which may limit the Company's ability to incur debt; engage in mergers and consolidations; make restricted payments (including dividends); sell certain assets; and make investments. The Company may make restricted payments (including dividends) as long as availability equals or exceeds the greater of (i) 25% of the aggregate commitment or (ii) \$12 million. If the average monthly availability is less than the greater of (i) 15% of the aggregate commitment and (ii) \$9 million, the Company is also required to meet a fixed charge coverage ratio financial covenant which may not be less than 1 to 1 for any period of four consecutive fiscal quarters.

The Facility contains customary borrowing conditions and events of default (the occurrence of which would entitle the lenders to accelerate the maturity of any outstanding borrowings and terminate their commitment to make future loans).

At June 30, 2009, we had no revolving loans and \$12.5 million in trade and standby letters of credit outstanding under the Credit Agreement. Remaining available borrowing capacity under the Credit Agreement was \$27.5

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million at that date. During fiscal 2009, Standard & Poor's ("S&P") lowered our corporate and senior unsecured credit ratings to BB from BBB-. While the change in our credit rating had no impact on our existing credit facilities, the S&P downgrade, if not improved to investment grade by March 2010, gives a right to the issuer of our private label credit cards to demand a standby letter of credit of up to \$12 million. Any additional letters of credit would reduce the credit available for borrowings under the revolver.

### Other Borrowings

Approximately \$3.9 million of our outstanding debt is related to industrial revenue bonds which were issued to finance capital improvements at the Ethan Allen Hotel and Conference Center, which is adjacent to our corporate headquarters in Danbury, Connecticut. These bonds bear interest at a fixed rate of 7.50% and have a remaining maturity of three years. For fiscal years ended June 30, 2009, 2008 and 2007, the weighted-average interest rates applicable under our outstanding debt obligations for each year were 5.53%.

Aggregate scheduled maturities of our debt obligations for each of the five fiscal years subsequent to June 30, 2009, and thereafter are as follows (in thousands):

Fiscal Year Ended June 30	
2010	\$ 42
2011	3,898
2012	19
2013	11
2014	11
Subsequent to 2014	199,167
Total scheduled debt payments	<u>\$ 203,148</u>

### Independent Retailer Credit Facility

On June 11, 2009, we obligated ourselves, on behalf of one of our independent retailers, with respect to a \$0.5 million non-revolving line of credit facility on which there is no further availability for borrowing (the "Amended Credit Facility"). The Company had previously guaranteed on April 9, 2009, on behalf of the independent retailer, a \$0.9 million credit facility comprised of a \$0.6 million revolving line of credit and a \$0.3 million term loan (the "Credit Facility"). On June 11, 2009, the Company purchased from the independent retailer one of the design centers which was collateral under the Credit Facility. Some of the proceeds were used by the independent retailer to pay down a portion of the Credit Facility, whereupon the Company entered into the Amended Credit Facility. This obligation requires us, in the event of the retailer's default under the Amended Credit Facility, to repurchase the retailer's inventory, applying such purchase price to the retailer's outstanding indebtedness under the Amended Credit Facility.

Our obligation remains in effect for the life of the term loan. The agreement expires in April 2011. The original agreement, which expired in April 2008, was replaced with a new agreement with the same terms and conditions dated December 2008, and amended on April 9, 2009. The maximum potential amount of future payments (undiscounted) that we could be required to make under this obligation is limited to the amount outstanding under the Credit Facility at the time of default (subject to pre-determined lending limits based on the value of the underlying inventory) and, as such, is not an estimate of future cash flows. No specific recourse or collateral provisions exist that would enable recovery of any portion of amounts paid under this obligation, except to the extent that we maintain the right to take title to the repurchased inventory. We anticipate that the repurchased inventory could subsequently be sold through our retail design center network.

As of June 30, 2009, the amount outstanding under the Amended Credit Facility totaled approximately \$0.5 million. Based on the underlying creditworthiness of the respective retailer, we believe this obligation will expire without requiring funding by us. However, in accordance with the provisions of FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, a liability has been established to reflect our non-contingent obligation under this arrangement as a result of modifications made to the Credit Facility subsequent to January 1, 2003. As of June 30, 2009, the carrying amount of such liability is less than \$50,000.

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### (8) Leases

We lease real property and equipment under various operating lease agreements expiring through 2033. Leases covering retail design center locations and equipment may require, in addition to stated minimums, contingent rentals based on retail sales or equipment usage. Generally, the leases provide for renewal for various periods at stipulated rates. Future minimum lease payments under non-cancelable operating leases for each of the five fiscal years subsequent to June 30, 2009, and thereafter are as follows (in thousands):

Fiscal Year Ended June 30	
2010	\$ 36,863
2011	31,057
2012	28,579
2013	24,059
2014	17,009
Subsequent to 2014	96,951
Total minimum lease payments	<u>\$ 234,518</u>

The above amounts will be offset in the aggregate by minimum future rentals from subleases of \$6.2 million, which is due to be received as follows: \$1.0 million in 2010; \$0.9 million in 2011; \$0.9 million in 2012; \$0.9 million in 2013; \$0.5 million in 2014; and \$2.0 million subsequent to 2014.

Total rent expense for each of the past three fiscal years ended June 30 was as follows (in thousands):

	2009	2008	2007
Basic rentals under operating leases	\$ 38,522	\$ 40,387	\$ 35,637
Contingent rentals under operating lease	182	589	524
	38,704	40,976	36,161
Less: sublease rent	(1,256)	(2,395)	(2,899)
Total rent expense	<u>\$ 37,448</u>	<u>\$ 38,580</u>	<u>\$ 33,262</u>

As of June 30, 2009 and 2008, deferred rent credits totaling \$11.6 million and \$9.8 million, respectively, and deferred lease incentives totaling \$2.8 million at both year ends, are reflected in the Consolidated Balance Sheets. These amounts are amortized over the respective underlying lease terms on a straight-line basis as a reduction of rent expense.

### (9) Shareholders' Equity

Our authorized capital stock consists of (a) 150,000,000 shares of Class A Common Stock, par value \$.01 per share, (b) 600,000 shares of Class B Common Stock, par value \$.01 per share, and (c) 1,055,000 shares of Preferred Stock, par value \$.01 per share, of which (i) 30,000 shares have been designated Series A Redeemable Convertible Preferred Stock, (ii) 30,000 shares have been designated Series B Redeemable Convertible Preferred Stock, (iii) 155,010 shares have been designated as Series C Junior Participating Preferred Stock, and (iv) the remaining 839,990 shares may be designated by the Board of Directors with such rights and preferences as they determine (all such preferred stock, collectively, the "Preferred Stock"). Shares of Class B Common Stock are convertible to shares of our Common Stock upon the occurrence of certain events or other specified conditions being met. As of June 30, 2009 and 2008, there were no shares of Preferred Stock or Class B Common Stock issued or outstanding.

#### Share Repurchase Program

On November 21, 2002, the Company's Board of Directors approved a share repurchase program authorizing us to repurchase up to 2.0 million shares of our common stock, from time to time, either directly or through agents, in the open market at prices and on terms satisfactory to us. Subsequent to that date, the Board of Directors increased the then remaining share repurchase authorization as follows: to 2.5 million shares on April 27, 2004; to 2.0 million shares on November 16, 2004; to 2.0 million shares on April 26, 2005; to 2.5 million shares on November 15, 2005; to 2.5 million shares on July 25, 2006; to 2.5 million shares on July 24, 2007, and to 2.0 million

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shares on November 13, 2007. As of June 30, 2009 we had a remaining Board authorization to repurchase 1.6 million shares.

All of our common stock repurchases and retirements are recorded as treasury stock and result in a reduction of shareholders' equity. During fiscal years 2009, 2008 and 2007, we repurchased and/or retired the following shares of our common stock:

	2009	2008 (1)	2007(2)(3)
Common shares repurchased	—	2,259,631	1,548,700
Cost to repurchase common shares	—	\$ 69,745,024	\$ 53,955,970
Average price per share	—	\$ 30.87	\$ 34.84

- (1) During fiscal 2008, we also retired 661,688 shares of common stock tendered upon the exercise of outstanding employee stock options (592,861 to cover share exercise and 68,827 to cover related employee tax withholding liabilities). The value of such shares on the date redeemed was \$23,033,359, representing an average price per share of \$34.81.
- (2) The cost to repurchase shares in fiscal 2007 reflects \$3,436,230 in common stock repurchases with a June 2007 trade date and a July 2007 settlement date.
- (3) During fiscal 2007, we also retired 555,531 shares of common stock tendered upon the exercise of outstanding employee stock options (410,073 to cover share exercise and 145,458 to cover related employee tax withholding liabilities). The value of such shares on the date redeemed was \$21,506,193, representing an average price per share of \$38.71.

For each of the fiscal years presented above, we funded our purchases of treasury stock with existing cash on hand and cash generated through current period operations.

#### Stockholder Rights Plan

On May 20, 1996, the Board of Directors adopted a Stockholder Rights Plan (the "Rights Plan") and declared a dividend of one Right for each share of our common stock outstanding as of July 10, 1996. Under the Rights Plan, each share of our common stock issued after July 10, 1996 is accompanied by one Right (or such other number of Rights as results from the adjustments for stock splits and other events described below). Each Right entitles its holder, under certain circumstances, to purchase one one-hundredth of a share of our Series C Junior Participating Preferred Stock at a purchase price of \$125. The Rights may not be exercised until 10 days after a person or group acquires 15% or more of our common stock, or 15 days after the commencement or the announcement of the intent to commence a tender offer, which, if consummated, would result in acquisition by a person or group of 15% or more of our common stock. Until then, separate Rights certificates will not be issued and the Rights will not be traded separately from shares of our common stock.

If the Rights become exercisable, then, upon exercise of a Right, our stockholders (other than the acquirer) would have the right to receive, in lieu of our Series C Junior Participating Preferred Stock, a number of shares of our common stock (or a number of shares of the common stock of the acquirer, if we are acquired, or other assets under various circumstances) having a market value equal to two times the purchase price. Under the Rights Plan, as amended by the Board of Directors on July 27, 2004, the Rights will expire on May 31, 2011, unless redeemed prior to that date. The redemption price is \$0.01 per Right. The Board of Directors may redeem the Rights at its option any time prior to the time when the Rights become exercisable.

The Rights Plan provides for adjustment to the number of Rights which accompanies each share of our common stock (whether then outstanding or thereafter issued) upon the occurrence of various events after July 10, 1996, including stock splits. We effected a 2-for-1 stock split on September 3, 1997 and a 3-for-2 stock split on May 24, 1999. Accordingly, at June 30, 2009, each share of our common stock was accompanied by one-third of one Right.

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#### **(10) Earnings per Share**

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

	2009	2008	2007
Weighted average common shares outstanding for basic calculation	28,814	29,267	31,566
Effect of dilutive stock options and share based awards	—	203	695
Weighted average common shares outstanding adjusted for diluted calculation	28,814	29,470	32,261

Certain restricted stock awards and the potential exercise of certain stock options were excluded from the respective diluted earnings per share calculation because their impact is anti-dilutive. In 2009, 2008 and 2007, stock options and share based awards of 2,228,121, 1,713,323 and 750,981, respectively, have been excluded.

#### **(11) Share-Based Compensation**

For the twelve months ended June 30, 2009, 2008, and 2007, share-based compensation expense totaled \$1.7 million, \$1.3 million, and \$0.8 million respectively. These amounts have been included in the Consolidated Statements of Operations within selling, general and administrative expenses. During the twelve months ended June 30, 2009, 2008, and 2007, we recognized related tax benefits associated with our share-based compensation arrangements totaling \$0.6 million, \$0.5 million and \$0.3 million, respectively. Such amounts have been included in the Consolidated Statements of Operations within income tax expense.

We estimate, as of the date of grant, the fair value of stock options awarded using the Black-Scholes option-pricing model. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs, including anticipated changes in the underlying stock price (i.e. expected volatility) and option exercise activity (i.e. expected life). Expected volatility is based on the historical volatility of our stock. The risk-free rate of return is based on the U.S. Treasury bill rate for the term closest matching the expected life of the grant. The dividend yield is based on the annualized dividend rate at the grant date relative to the grant date stock price. The expected life of options granted, which represents the period of time that the options are expected to be outstanding, is based, primarily, on historical data. The weighted average assumptions used for fiscal years ended June 30 are noted in the following table:

	2009	2008	2007
Volatility	34.4%	35.8%	28.14%
Risk-free rate of return	3.21%	4.51%	4.97%
Dividend yield	5.11%	2.69%	2.18%
Expected average life	7.4 years	9.3 years	6.0 years

At June 30, 2009, we had 7,317,409 shares of common stock reserved for issuance pursuant to the following share-based compensation plans:

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#### 1992 Stock Option Plan

The Plan provides for the grant of non-compensatory stock options to eligible employees and non-employee directors. Stock options granted under the Plan are non-qualified under Section 422 of the Internal Revenue code and allow for the purchase of shares of our common stock. The maximum number of shares of common stock reserved for issuance under the Plan is 6,487,867 shares. The Plan also provides for the issuance of stock appreciation rights ("SARs") on issued options, however, no SARs have been issued as of June 30, 2009. The awarding of such options is determined by the Compensation Committee of the Board of Directors after consideration of recommendations proposed by the Chief Executive Officer. Option awards are generally granted with an exercise price equal to the market price of our common stock at the date of grant, vest ratably over a specified service period (4 years for awards to employees; 2 years for awards to independent directors), and have a contractual term of 10 years.

On October 10, 2007, the Company's Board of Directors and M. Farooq Kathwari, our President and Chief Executive Officer, agreed to the terms of a new employment agreement expiring on June 30, 2012 ("2007 Employment Agreement"). This agreement was effective as of October 1, 2007 and served to supersede all terms and conditions set forth in his previous employment agreement dated August 1, 2002 (the "2002 Employment Agreement"). Pursuant to the terms of the 2007 Employment Agreement, Mr. Kathwari was awarded on October 10, 2007, July 1, 2008, and July 1, 2009, options to purchase 150,000, 90,000 and 60,000 shares respectively, of our common stock. These options were issued at an exercise price of \$34.03, \$24.62, and \$10.68 per share respectively (the price of a share of our common stock on the New York Stock Exchange on those dates). The 2007 grant vests in three installments of 33 1/3% on each June 30 of 2008, 2009, and 2010. The 2008 grant vests in two installments of 50% on each June 30 of 2009 and 2010. The 2009 grant vests on June 30, 2010. On November 11, 2008 Mr. Kathwari was awarded options to purchase 50,000 shares of our common stock at an exercise price of \$15.93 (the price of a share of our common stock on the New York Stock Exchange on that date). This grant vests in four equal installments on the anniversary date of the grant.

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A summary of stock option activity occurring during the fiscal year ended June 30, 2009 is presented below:

Options	Shares	Exercise Price	Weighted Average Remaining Contractual Term (yrs)	Aggregate Intrinsic Value
Outstanding - June 30, 2008	1,768,457	\$ 33.23		
Granted	291,060	19.58		
Exercised	(90)	25.00		
Canceled (forfeited/expired)	(73,291)	27.22		
Outstanding - June 30, 2009	1,986,136	31.45	5.0	—
Exercisable - June 30, 2009	1,667,380	\$ 33.19	4.2	—

The weighted average grant-date fair value of options granted during fiscal 2009, 2008, and 2007 was \$4.58, \$12.06 and \$9.91 respectively. The total intrinsic value of options exercised during 2009, 2008 and 2007 was \$0.0 million, \$5.7 million, and \$13.5 million, respectively. As of June 30, 2009, there was \$1.9 million of total unrecognized compensation cost related to nonvested options granted under the Plan. That cost is expected to be recognized over a weighted average period of 1.7 years. A summary of the nonvested shares as of June 30, 2009 and changes during the year then ended is presented below:

Nonvested Shares	Shares	Weighted Average Grant Date Fair Value
Nonvested June 30, 2008	170,276	\$ 11.16
Granted	291,060	4.58
Vested	(130,820)	10.18
Canceled (forfeited/expired)	(11,760)	4.32
Nonvested at June 30, 2009	318,756	\$ 5.80

In connection with the 1992 Stock Option Plan, the following two stock award plans have also been established:

## [Restricted Stock Awards](#)

In connection with the 2007 Employment Agreement, Mr. Kathwari received on November 13, 2007 and July 1, 2008, and will be awarded on July 1, 2009, an annual award of 20,000 shares of restricted stock (for a total award of 60,000 shares), with vesting based on the performance of the Company's stock price during the three year periods subsequent to the award date as compared to the Standard and Poor's 500 index. Mr. Kathwari also received on November 13, 2007, 15,000 shares of restricted stock which vest ratably over a five year period through June 30, 2012. On November 11, 2008 Mr. Kathwari received an award of 60,000 shares of restricted stock, which provided for vesting to occur if specific financial objectives were achieved during the final three quarters of fiscal 2009. The financial objectives were not achieved and the shares were forfeited. A summary of nonvested restricted share activity occurring during the fiscal year ended June 30, 2009 is presented below.

Nonvested Restricted Shares	Shares	Weighted Average Grant-Date Fair Value
Nonvested - June 30, 2008	35,000	\$ 22.19
Granted	83,000	10.28
Vested	(5,000)	30.55
Canceled (forfeited/expired)	(60,000)	8.22
Nonvested - June 30, 2009	53,000	\$ 18.56

As of June 30, 2009, there was \$0.5 million of total unrecognized compensation cost related to restricted shares granted under the Plan. That cost is expected to be recognized over a weighted average period of 2.7 years. The

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total fair value of restricted shares vested during the fiscal years ending June 30, 2009 and 2008 was \$0.2 million and \$0.1 million respectively.

## [Stock Unit Awards](#)

In connection with previous employment agreements, Mr. Kathwari was deemed to have earned 126,000 stock units. In the event of the termination of his employment, regardless of the reason for termination, Mr. Kathwari will receive shares of common stock equal to the number of stock units earned.

## **(12) Income Taxes**

Total income taxes were allocated as follows for the fiscal years ended June 30 (in thousands):

	2009	2008	2007
Income (loss) from operations	\$ (28,493)	\$ 34,106	\$ 40,499



Shareholders' equity	—	(2,093)	(5,015)
Total	<u>\$ (28,493)</u>	<u>\$ 32,013</u>	<u>\$ 35,484</u>

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

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

	2009	2008	2007
Current:			
Federal	\$ 2,657	\$ 32,431	\$ 34,768
State	975	4,151	5,125
Foreign	33	(112)	406
Total current	<u>3,665</u>	<u>36,470</u>	<u>40,299</u>
Deferred:			
Federal	(30,200)	(2,172)	190
State	(1,958)	(192)	10
Total deferred	<u>(32,158)</u>	<u>(2,364)</u>	<u>200</u>
Income tax expense	<u>\$ (28,493)</u>	<u>\$ 34,106</u>	<u>\$ 40,499</u>

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

	2009		2008		2007	
Expected income tax expense (benefit)	\$ (28,413)	35.0%	\$ 32,262	35.0%	\$ 38,404	35.0%
State income taxes (benefit), net of federal income tax	(3,237)	4.0%	2,698	2.9%	3,331	3.0%
Valuation allowance	2,088	(2.6)%	—	0.0%	—	0.0%
Goodwill impairment	1,402	(1.7)%	—	0.0%	—	0.0%
Section 199 Qualified Production Activities deduction	—	0.0%	(1,100)	(1.2)%	(630)	(0.6)%
Other, net	(333)	0.4%	246	0.3%	(606)	(0.5)%
Actual income tax expense (benefit)	<u>\$ (28,493)</u>	<u>35.1%</u>	<u>\$ 34,106</u>	<u>37.0%</u>	<u>\$ 40,499</u>	<u>36.9%</u>

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

	2009	2008	2007
Deferred tax expense (benefit):			
Commissions	\$ (3,045)	\$ (426)	\$ 211
Restructuring costs	(4,469)	(1,238)	—
Acquired goodwill	(16,191)	1,018	927
Amortization and depreciation	(7,126)	(1,767)	(1,515)
Federal, foreign and state net operating losses	(2,870)	—	—
Other	(545)	10	538
Utilization of net operating loss and tax credit carryforwards	—	39	39
Total deferred tax expense (benefit)	<u>\$ (34,246)</u>	<u>\$ (2,364)</u>	<u>\$ 200</u>
Less: Valuation allowance	2,088	—	—
Net deferred tax expense (benefit)	<u>\$ (32,158)</u>	<u>\$ (2,364)</u>	<u>\$ 200</u>

The deferred income tax asset and liability balances at June 30 (in thousands) include:

	2009	2008
Deferred tax assets:		
Accounts receivable	\$ 531	\$ 963
Property, plant and equipment	2,391	—
Employee compensation accruals	6,436	10,236
Stock based compensation	2,227	1,514
Deferred rent credits	5,439	4,619
Restructuring charges	5,762	1,345
Net operating loss carryforwards	2,870	30
Other, net	3,301	2,670
Total deferred tax asset	<u>28,957</u>	<u>21,377</u>
Less: Valuation allowance	<u>(2,088)</u>	<u>—</u>
Net deferred tax assets	<u>26,869</u>	<u>21,377</u>
Deferred tax liabilities:		
Inventories	1,425	2,719
Property, plant and equipment	—	7,577
Intangible assets other than goodwill	5,180	20,737
Commissions	353	3,642
Other accrued liabilities	—	2,483
Other, net	37	—
Total deferred tax liability	<u>6,995</u>	<u>37,158</u>
Net deferred tax asset (liability)	<u>\$ 19,874</u>	<u>\$ (15,781)</u>

The deferred income tax balances are classified in the Consolidated Balance Sheets as follows at June 30 (in thousands):

	2009	2008
Current assets	\$ 9,502	\$ 11,111
Non-current assets	17,367	10,266
Current liabilities	1,425	4,986
Non-current liabilities	5,570	32,172
Total net deferred tax asset (liability)	<u>\$ 19,874</u>	<u>\$ (15,781)</u>

Note: Current deferred tax assets and liabilities and non-current deferred tax assets and liabilities have been presented net in the Consolidated Balance Sheets.

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In accordance with SFAS No. 109, *Accounting for Income Taxes*, we evaluate our deferred taxes to determine if the “more likely than not” standard of evidence has not been met thereby supporting the need for a valuation allowance. In fiscal 2009, due to significant losses incurred in our retail segment, the uncertain outlook regarding the current economic recession, and the lack of carry-back availability due to limitations imposed by certain states and Canada, we established valuation allowances of \$2.1 million against certain state and Canada deferred tax assets primarily for net operating losses. Our state net operating losses and credits expire between fiscal year 2014 and 2029 and for Canada expire in fiscal 2029. At June 30, 2009 we had, for U.S. federal income tax purposes, a net operating loss of \$4.3 million which expires in 2029. We believe it is more likely than not that our deferred tax assets and credits for U.S. federal income tax purposes will be realized due to sufficient historical and anticipated future pre-tax earnings and we therefore have not established valuation allowances for these assets.

## [Uncertain Tax Positions](#)

Effective July 1, 2007, we adopted Financial Accounting Standards Board (“FASB”) Interpretation No. (“FIN”) 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109, *Accounting for Income Taxes*. As a result of the adoption of FIN 48, we recorded a cumulative effect of a change in accounting principle adjustment of \$0.7 million as an increase to beginning retained earnings. Our continuing practice is to recognize interest and penalties related to income tax matters as a component of income tax expense. If the \$13.1 million of unrecognized tax benefits and related interest and penalties as of June 30, 2009 were recognized, approximately \$10.8 million would be recorded as a benefit to income tax expense.

	2009	2008
A reconciliation of the beginning and ending amount of unrecognized tax benefits including related interest and penalties as of June 30, 2009 is as follows (in thousands):		
Beginning balance	\$ 13,633	\$ 13,988
Additions based on tax positions in the current year	399	458
Additions for tax positions in prior years	1,264	2,377
Reductions for tax positions of prior years due to:		
Statute expiration	(895)	(360)
Settlements	(1,341)	(2,830)
Ending balance	<u>\$ 13,060</u>	<u>\$ 13,633</u>

It is reasonably possible that various issues relating to approximately \$3.7 million of the total gross unrecognized tax benefits as of June 30, 2009 will be resolved within the next twelve months as exams are completed or statutes expire. If recognized, approximately \$3.7 million of unrecognized tax benefits would reduce our tax expense in the period realized. However, actual results could differ from those currently anticipated.

The Company conducts business globally and, as a result, the Company or one or more of its subsidiaries files income tax returns in the U.S., various state, and foreign jurisdictions. In the normal course of business, the Company is subject to examination by the taxing authorities in such major jurisdictions as Canada, Mexico and the U.S. As of June 30, 2009 certain subsidiaries of the Company are currently under audit from 2001 through 2008 in the U.S. While the amount of uncertain tax benefits with respect to the entities and years under audit may change within the next twelve months, it is not anticipated that any of the changes will be significant.

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### **(13) Employee Retirement Programs**

#### [The Ethan Allen Retirement Savings Plan](#)

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

We may, at our discretion, make a matching contribution to the 401(k) portion of the Savings Plan on behalf of each participant, provided the contribution does not exceed the lesser of 50% of the participant’s contribution or \$500 per participant per Savings Plan year. Total profit sharing and 401(k) Company match expense amounted to \$1.3 million in 2009, \$3.7 million in 2008, and \$4.3 million in 2007. The contribution was made in shares of the Company’s common stock in 2009 and in cash in 2008 and 2007.

#### [Other Retirement Plans and Benefits](#)

Ethan Allen provides additional benefits to selected members of senior and middle management in the form of previously entered deferred compensation arrangements and a management cash bonus and other incentive programs. The total cost (credit) of these benefits was (\$0.7) million, \$1.2 million, and \$2.7 million in 2009, 2008 and 2007, respectively.

### **(14) Litigation**

#### [Environmental Matters](#)

We and our subsidiaries are subject to various environmental laws and regulations. Under these laws, we and/or our subsidiaries are, or may be, required to remove or mitigate the effects on the environment of the disposal or release of certain hazardous materials.

During the fiscal year ending June 30, 2009, our liability with respect to three active sites currently listed, or proposed for inclusion, on the National Priorities List (“NPL”) under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (“CERCLA”), where we and/or our subsidiaries had been named as

a Potentially Responsive Party ("PRP") located in Southington, Connecticut; High Point, North Carolina; and Atlanta, Georgia has been resolved.

In each case we were not a major contributor based on the very small volume of waste generated by us in relation to total volume at those sites and were able to take part in de minimus settlement arrangements. Specifically, with respect to the Southington site, our volumetric share is less than 1% of over 51 million gallons disposed of at the site and there are more than 1,000 PRPs. With respect to the High Point site, our volumetric share is less than 1% of over 18 million gallons disposed of at the site and there are more than 2,000 PRPs, including more than 1,000 de minimis parties (of which we are one). With respect to the Atlanta site, a former solvent recycling/reclamation facility, our volumetric share is less than 1% of over 20 million gallons disposed of at the site by more than 1,700 PRPs.

In addition to the now settled actions discussed above, in July 2000, we were notified by the State of New York (the "State") that we may be named a PRP in a separate, unrelated matter with respect to a site located in Carroll, New York. In May, 2009, we were notified by the State that it had conducted an initial environmental study and that we have been named as a PRP. We believe that we are not a major contributor; however, a review of the initial environmental study is ongoing.

Liability under CERCLA may be joint and several. As such, to the extent certain named PRPs are unable, or unwilling, to accept responsibility and pay their apportioned costs, we could be required to pay in excess of our pro rata share of incurred remediation costs. Our understanding of the financial strength of other PRPs has been considered, where appropriate, in the determination of our estimated liability.

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As of June 30, 2009, we believe that established reserves related to these environmental contingencies are adequate to cover probable and reasonably estimable costs associated with the remediation and restoration of these sites. We believe our currently anticipated capital expenditures for environmental control facility matters are not material.

We are subject to other federal, state and local environmental protection laws and regulations and are involved, from time to time, in investigations and proceedings regarding environmental matters. Such investigations and proceedings typically concern air emissions, water discharges, and/or management of solid and hazardous wastes. We believe that our facilities are in material compliance with all such applicable laws and regulations.

Regulations issued under the Clean Air Act Amendments of 1990 required the industry to reformulate certain furniture finishes or institute process changes to reduce emissions of volatile organic compounds. Compliance with many of these requirements has been facilitated through the introduction of high solids coating technology and alternative formulations. In addition, we have instituted a variety of technical and procedural controls, including reformulation of finishing materials to reduce toxicity, implementation of high velocity low pressure spray systems, development of storm water protection plans and controls, and further development of related inspection/audit teams, all of which have served to reduce emissions per unit of production. We remain committed to implementing new waste minimization programs and/or enhancing existing programs with the objective of (i) reducing the total volume of waste, (ii) limiting the liability associated with waste disposal, and (iii) continuously improving environmental and job safety programs on the factory floor which serve to minimize emissions and safety risks for employees. We will continue to evaluate the most appropriate, cost effective, control technologies for finishing operations and design production methods to reduce the use of hazardous materials in the manufacturing process.

#### (15) Comprehensive Income

Total comprehensive income represents the sum of net income and items of "other comprehensive income or loss" that are reported directly in equity. Such items, which are generally presented on a net-of-tax basis, may include foreign currency translation adjustments, minimum pension liability adjustments, fair value adjustments (i.e. gains and losses) on certain derivative instruments, and unrealized gains and losses on certain investments in debt and equity securities. We have reported our total comprehensive income in the Consolidated Statements of Shareholders' Equity.

Our accumulated other comprehensive income, which is comprised of losses on certain derivative instruments and accumulated foreign currency translation adjustments, totaled \$0.5 million at June 30, 2009 and \$2.7 million at June 30, 2008. Foreign currency translation adjustments are the result of changes in foreign currency exchange rates related to our operation of five Ethan Allen-operated retail design centers located in Canada. Foreign currency translation adjustments exclude income tax expense (benefit) given that the earnings of non-U.S. subsidiaries are deemed to be reinvested for an indefinite period of time.

#### (16) Segment Information

Our operations are classified into two operating segments: wholesale and retail. These operating segments represent strategic business areas which, although they operate separately and provide their own distinctive services, enable us to more effectively offer our complete line of home furnishings and accessories.

The wholesale segment is principally involved in the development of the Ethan Allen brand, which encompasses the design, manufacture, domestic and off-shore sourcing, sale and distribution of a full range of home furnishings and accessories to a network of independently operated and Ethan Allen-operated design centers as well as related marketing and brand awareness efforts. Wholesale revenue is generated upon the wholesale sale and shipment of our product to all retail design centers, including those operated by Ethan Allen. Wholesale profitability includes (i) the wholesale gross margin, which represents the difference between the wholesale sales

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price and the cost associated with manufacturing and/or sourcing the related product, and (ii) other operating costs associated with wholesale segment activities.

The retail segment sells home furnishings and accessories to consumers through a network of Company-operated design centers. Retail revenue is generated upon the retail sale and delivery of our product to our customers. Retail profitability includes (i) the retail gross margin, which represents the difference between the retail sales price and the cost of goods purchased from the wholesale segment, and (ii) other operating costs associated with retail segment activities.

Inter-segment eliminations result, primarily, from the wholesale sale of inventory to the retail segment, including the related profit margin.

We evaluate performance of the respective segments based upon revenues and operating income. While the manner in which our home furnishings and accessories are marketed and sold is consistent, the nature of the underlying recorded sales (i.e. wholesale versus retail) and the specific services that each operating segment provides (i.e. wholesale manufacturing, sourcing, and distribution versus retail selling) are different. Within the wholesale segment, we maintain revenue information according to each respective product line (i.e. case goods, upholstery, or home accessories and other).

A breakdown of wholesale sales by product line for each of the last three fiscal years ended June 30 is provided below:

	2009	2008	2007
Case Goods	41%	43%	44%
Upholstered Products	41	40	38
Home Accessories and Other	18	17	18

100%	100%	100%

Revenue information by product line is not as easily determined within the retail segment. However, because wholesale production and sales are matched, for the most part, to incoming orders, we believe that the allocation of retail sales by product line would be similar to that of the wholesale segment. Information for each of the last three fiscal years ended June 30 is provided below (in thousands):

	2009	2008	2007
<b>Net Sales:</b>			
Wholesale segment	\$ 403,378	\$ 616,230	\$ 656,035
Retail segment	508,621	724,586	698,611
Elimination of inter-company sales	(237,722)	(360,771)	(349,334)
Consolidated Total	<u>\$ 674,277</u>	<u>\$ 980,045</u>	<u>\$ 1,005,312</u>
<b>Operating Income:</b>			
Wholesale segment (1)	\$ 6,670	\$ 100,324	\$ 99,215
Retail segment (2)	(92,100)	(2,800)	15,162
Adjustment for inter-company profit (3)	12,659	(1,524)	(3,258)
Consolidated Total	<u>\$ (72,771)</u>	<u>\$ 96,000</u>	<u>\$ 111,119</u>
<b>Capital Expenditures:</b>			
Wholesale segment	\$ 3,246	\$ 7,347	\$ 8,791
Retail segment	19,291	52,691	50,282
Acquisitions (4) (5)	1,366	7,168	15,906
Consolidated Total	<u>\$ 23,903</u>	<u>\$ 67,206</u>	<u>\$ 74,979</u>

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	June 30 2009	June 30 2008	June 30, 2007
<b>Total Assets:</b>			
Wholesale segment	\$ 276,250	\$ 345,080	\$ 416,237
Retail segment	397,877	459,842	425,382
Inventory profit elimination (6)	(27,642)	(40,829)	(39,021)
Consolidated Total	<u>\$ 646,485</u>	<u>\$ 764,093</u>	<u>\$ 802,598</u>

- (1) Operating income for the wholesale segment for the twelve months ended June 30, 2009 and 2007 includes pre-tax restructuring and impairment charges of \$17.4 million and \$13.4 million, respectively.
- (2) Operating income for the retail segment for the twelve months ended June 30, 2009 and 2008 includes pre-tax restructuring and impairment charges of \$49.6 million and \$6.8 million respectively.
- (3) Represents the change in the inventory profit elimination entry necessary to adjust for the embedded wholesale profit contained in Ethan Allen-operated design center inventory existing at the end of the period. See footnote 6 below.
- (4) Acquisitions include the purchase of four retail design centers in 2009, five retail design centers and a cut and sew upholstery facility in 2008 and 12 retail design centers in 2007. See Note 3.
- (5) Amount reflected as acquisitions for 2007 includes purchase of a retail design center with an effective (closing) date of June 30, 2007. However, the consideration paid in connection with this acquisition was not funded until July 2, 2007.
- (6) Represents the embedded wholesale profit contained in Ethan Allen-operated design center inventory that has not yet been realized. These profits are realized when the related inventory is sold.

There are 46 independent retail design centers located outside the United States. Approximately 3.3% of our net sales are derived from sales to these retail design centers.

## (17) Selected Quarterly Financial Data (Unaudited)

Tabulated below is selected financial data for each quarter of the fiscal years ended June 30, 2009, 2008, and 2007 (in thousands, except per share data):

	Quarter Ended			
	September 30	December 31	March 31	June 30
<b>Fiscal 2009:</b>				
Net sales	\$ 205,841	\$ 189,558	\$ 140,221	\$ 138,657
Gross profit	111,941	101,801	66,050	67,550
Net income (loss)	7,422	5,488	(48,674)	(16,923)
Earnings (loss) per basic share (1)	0.26	0.19	(1.69)	(0.58)
Earnings (loss) per diluted share (1)	0.26	0.19	(1.69)	(0.58)
Dividend per common share	0.25	0.25	0.10	0.05
<b>Fiscal 2008:</b>				
Net sales	\$ 248,727	\$ 259,510	\$ 235,901	\$ 235,907
Gross profit	133,457	139,453	125,187	127,968
Net income	17,504	20,622	8,846	11,100
Earnings per basic share (1)	0.58	0.70	0.31	0.39
Earnings per diluted share (1)	0.57	0.70	0.30	0.39
Dividend per common share	0.22	0.22	0.22	0.22
<b>Fiscal 2007:</b>				
Net sales	\$ 242,823	\$ 257,419	\$ 246,539	\$ 258,531
Gross profit	126,329	133,750	128,516	137,988
Net income	8,452	22,792	17,499	20,484
Earnings per basic share (1)	0.27	0.72	0.55	0.66
Earnings per diluted share (1)	0.26	0.70	0.54	0.65

Dividend per common share	0.20	0.20	0.20	0.20
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(1) The sum of the quarterly earnings per share may not equal the full-year total due to rounding and/or changes in share count.

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**(18) Financial Instruments**

We adopted SFAS No. 157 on July 1, 2008 for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

SFAS No. 157 defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk including our own credit risk.

In addition to defining fair value, SFAS No. 157 expands the disclosure requirements around fair value and establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

- Level 1 – inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.
- Level 2 – inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – inputs are generally unobservable and typically reflect management’s estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The following section describes the valuation methodologies we use to measure different financial assets and liabilities at fair value.

**Cash Equivalents**

Cash equivalents consist of money market accounts and mutual funds in U.S. government and agency securities. We use quoted prices in active markets for identical assets or liabilities to determine fair value. This pricing methodology applies to our Level 1 cash equivalents. We do not hold any Level 2 or Level 3 investments in our cash equivalents.

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

At June 30, 2009, the Company’s assets and liabilities measured at fair value on a recurring basis consist of \$53.0 million in cash equivalents, which were valued using Level 1 inputs.

**Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis**

We measure certain assets, including our cost and equity method investments, at fair value on a nonrecurring basis. These assets are recognized at fair value when they are deemed to be other-than-temporarily impaired. During the third quarter of fiscal, 2009, we determined that the goodwill for the Retail segment was impaired, and a goodwill impairment charge of \$48.4 million was recorded (also see note 6).

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**(19) Subsequent Events**

The Company has evaluated events and transactions subsequent to June 30, 2009 through August 24, 2009, which was the date the financial statements were issued (filed with the SEC).

**(20) Financial Information About the Parent, the Issuer and the Guarantors**

On September 27, 2005, Global (the “Issuer”) issued \$200 million aggregate principal amount of Senior Notes which have been guaranteed on a senior basis by Interiors (the “Parent”), and other wholly owned domestic subsidiaries of the Issuer and the Parent, including Ethan Allen Retail, Inc., Ethan Allen Operations, Inc., Ethan Allen Realty, LLC, Lake Avenue Associates, Inc. and Manor House, Inc. The subsidiary guarantors (other than the Parent) are collectively called the “Guarantors”. The guarantees of the Guarantors are unsecured. All of the guarantees are full, unconditional and joint and several and the Issuer and each of the Guarantors are 100% owned by the Parent. Ethan Allen (UK) Ltd. and our other subsidiaries which are not guarantors are called the “Non-Guarantors”. During the quarter ended December 31, 2008, we determined that our international subsidiaries in Canada and Mexico are non-guarantors. The Company has reclassified, for all prior periods presented, the financial results of these international subsidiaries to reflect their non-guarantor status.

The following tables set forth the condensed consolidating balance sheets as of June 30, 2009 and June 30, 2008, the condensed consolidating statements of operations for the twelve months ended June 30, 2009, 2008 and 2007, and the condensed consolidating statements of cash flows for the twelve months ended June 30, 2009, 2008 and 2007 of the Parent, the Issuer, the Guarantors and the Non-Guarantors.

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(in thousands)  
**June 30, 2009**

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ —	\$ 47,712	\$ 3,592	\$ 1,656	\$ —	\$ 52,960
Accounts receivable, net	—	12,049	783	254	—	13,086
Inventories	—	—	179,705	4,456	(27,642)	156,519
Prepaid expenses and other current assets	—	20,509	8,084	544	—	29,137
Intercompany receivables	—	782,736	227,453	(3,010)	(1,007,179)	0
Total current assets	—	863,006	419,617	3,900	(1,034,821)	251,702
Property, plant and equipment, net	—	11,748	317,144	4,707	—	333,599
Goodwill and other intangible assets	—	37,905	7,223	—	—	45,128
Other assets	—	15,323	727	6	—	16,056
Investment in affiliated companies	612,391	(20,616)	—	—	(591,775)	—
Total assets	612,391	907,366	744,711	8,613	(1,626,596)	646,485
<b>Liabilities and Shareholders' Equity</b>						
Current liabilities:						
Current maturities of long-term debt	—	—	42	—	—	42
Customer deposits	—	—	30,412	1,279	—	31,691
Accounts payable	—	8,851	13,106	242	—	22,199
Accrued expenses and other current liabilities	1,552	41,004	15,707	268	—	58,531
Intercompany payables	304,917	8,123	687,826	6,313	(1,007,179)	—
Total current liabilities	306,469	57,978	747,093	8,102	(1,007,179)	112,463
Long-term debt	—	198,998	4,108	—	—	203,106
Other long-term liabilities	—	10,565	14,290	138	—	24,993
Deferred income taxes	—	—	—	—	—	—
Total liabilities	306,469	267,541	765,491	8,240	(1,007,179)	340,562
Shareholders' equity	305,922	639,825	(20,780)	373	(619,417)	305,923
Total liabilities and shareholders' equity	\$ 612,391	\$ 907,366	\$ 744,711	\$ 8,613	\$ (1,626,596)	\$ 646,485

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**CONDENSED CONSOLIDATING BALANCE SHEET**

(in thousands)  
**June 30, 2008**

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ —	\$ 71,117	\$ 1,307	\$ 1,952	\$ —	\$ 74,376
Accounts receivable, net	—	11,937	431	304	—	12,672
Inventories	—	—	222,130	4,964	(40,829)	186,265
Prepaid expenses and other current assets	—	17,475	21,020	490	—	38,985
Intercompany receivables	—	712,981	209,471	—	(922,452)	—
Total current assets	—	813,510	454,359	7,710	(963,281)	312,298
Property, plant and equipment, net	—	13,186	331,581	5,665	—	350,432
Goodwill and other intangible assets	—	37,905	55,189	3,729	—	96,823
Other assets	—	3,604	929	7	—	4,540
Investment in affiliated companies	665,427	118,371	—	—	(783,798)	—
Total assets	665,427	986,576	842,058	17,111	(1,747,079)	764,093
<b>Liabilities and Shareholders' Equity</b>						
Current liabilities:						
Current maturities of long-term debt	—	—	41	—	—	41
Customer deposits	—	—	45,486	1,811	—	47,297
Accounts payable	—	9,785	15,936	723	—	26,444
Accrued expenses and other current liabilities	6,438	36,885	18,022	375	—	61,720
Intercompany payables	283,216	597	628,925	9,714	(922,452)	—
Total current liabilities	289,654	47,267	708,410	12,623	(922,452)	135,502
Long-term debt	—	198,837	4,151	—	—	202,988
Other long-term liabilities	—	15,360	12,380	184	—	27,924
Deferred income taxes	—	21,906	—	—	—	21,906
Total liabilities	289,654	283,370	724,941	12,807	(922,452)	388,320
Shareholders' equity	375,773	703,206	117,117	4,304	(824,627)	375,773
Total liabilities and shareholders' equity	\$ 665,427	\$ 986,576	\$ 842,058	\$ 17,111	\$ (1,747,079)	\$ 764,093

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**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**

(in thousands)

**Year Ended June 30, 2009**

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	\$ —	\$ 404,543	\$ 676,740	\$ 21,042	\$ (428,048)	\$ 674,277
Cost of sales	—	302,359	453,868	12,007	(441,299)	326,935
Gross profit	—	102,184	222,872	9,035	13,251	347,342
Selling, general and administrative expenses	165	49,191	293,296	10,460	—	353,112
Restructuring and impairment charges	—	—	67,001	—	—	67,001
Total operating expenses	165	49,191	360,297	10,460	—	420,113
Operating income (loss)	(165)	52,993	(137,425)	(1,425)	13,251	(72,771)
Interest and other miscellaneous income (expense), net	(52,522)	(135,736)	43	83	191,487	3,355
Interest and other related financing costs	—	11,459	305	—	—	11,764
Income (loss) before income tax expense	(52,687)	(94,202)	(137,687)	(1,342)	204,738	(81,180)
Income tax expense (benefit)	—	(28,493)	—	—	—	(28,493)
Net income/(loss)	\$ (52,687)	\$ (65,709)	\$ (137,687)	\$ (1,342)	\$ 204,738	\$ (52,687)

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**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**

(in thousands)

**Year Ended June 30, 2008**

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	\$ —	\$ 617,547	\$ 982,404	\$ 27,192	\$ (647,098)	\$ 980,045
Cost of sales	—	436,642	648,437	14,279	(645,378)	453,980
Gross profit	—	180,905	333,967	12,913	(1,720)	526,065
Selling, general and administrative expenses	166	50,555	359,719	12,789	—	423,229
Restructuring and impairment charges	—	—	6,836	—	—	6,836
Total operating expenses	166	50,555	366,555	12,789	—	430,065
Operating income (loss)	(166)	130,350	(32,588)	124	(1,720)	96,000
Interest and other miscellaneous income (expense), net	58,238	(24,901)	603	121	(26,170)	7,891
Interest and other related financing costs	—	11,408	305	—	—	11,713
Income (loss) before income tax expense	58,072	94,041	(32,290)	245	(27,890)	92,178
Income tax expense (benefit)	—	33,995	111	—	—	34,106
Net income/(loss)	\$ 58,072	\$ 60,046	\$ (32,401)	\$ 245	\$ (27,890)	\$ 58,072

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**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**

(in thousands)

**Year Ended June 30, 2007**

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	\$ —	\$ 655,967	\$ 959,799	\$ 22,704	\$ (633,158)	\$ 1,005,312
Cost of sales	—	461,479	636,246	11,018	(630,014)	478,729
Gross profit	—	194,488	323,553	11,686	(3,144)	526,583
Selling, general and administrative expenses	166	45,232	346,051	10,573	—	402,022
Restructuring and impairment charges	—	—	13,442	—	—	13,442
Total operating expenses	166	45,232	359,493	10,573	—	415,464
Operating income (loss)	(166)	149,256	(35,940)	1,113	(3,144)	111,119
Interest and other miscellaneous income (expense), net	69,393	(26,137)	(97)	(55)	(32,735)	10,369
Interest and other related financing costs	—	11,457	305	—	—	11,762
Income (loss) before income tax expense	69,227	111,662	(36,342)	1,058	(35,879)	109,726
Income tax expense (benefit)	—	39,013	1,486	—	—	40,499
Net income/(loss)	\$ 69,227	\$ 72,649	\$ (37,828)	\$ 1,058	\$ (35,879)	\$ 69,227

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**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**

(in thousands)

**Year Ended June 30, 2009**

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net cash provided by (used in) operating activities	\$ 23,615	\$ (20,986)	\$ 18,710	\$ 594	\$ —	\$ 21,933
Cash flows from investing activities:						
Capital expenditures	—	(1,337)	(21,097)	(103)	—	(22,537)
Acquisitions	—	—	(1,366)	—	—	(1,366)
Proceeds from the disposal of property, plant and equipment	—	88	6,296	—	—	6,384
Other	—	210	(217)	—	—	(7)
Net cash used in investing activities	—	(1,039)	(16,384)	(103)	—	(17,526)
Cash flows from financing activities:						
Payments on long-term debt	—	—	(41)	—	—	(41)
Purchases and other retirements of company stock	—	—	—	—	—	—
Proceeds from issuance of common stock	2	—	—	—	—	2
(Increase) decrease in deferred financing costs	—	(1,380)	—	—	—	(1,380)
Dividends paid	(23,617)	—	—	—	—	(23,617)
Net cash provided by (used in) financing activities	(23,615)	(1,380)	(41)	—	—	(25,036)
Effect of exchange rate changes on cash	—	—	—	(787)	—	(787)
Net increase (decrease) in cash and cash equivalents	—	(23,405)	2,285	(296)	—	(21,416)
Cash and cash equivalents — beginning of period	—	71,117	1,307	1,952	—	74,376
Cash and cash equivalents — end of period	\$ —	\$ 47,712	\$ 3,592	\$ 1,656	\$ —	\$ 52,960

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#### CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

(in thousands)

**Year Ended June 30, 2008**

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net cash provided by (used in) operating activities	\$ 100,598	\$ (68,050)	\$ 52,512	\$ 1,077	\$ —	\$ 86,137
Cash flows from investing activities:						
Capital expenditures	—	(5,217)	(54,784)	(37)	—	(60,038)
Acquisitions	—	—	(7,777)	—	—	(7,777)
Proceeds from the disposal of property, plant and equipment	—	—	6,943	—	—	6,943
Other	—	38	(500)	—	—	(462)
Net cash used in investing activities	—	(5,179)	(56,118)	(37)	—	(61,334)
Cash flows from financing activities:						
Payments on long-term debt	—	—	(40)	—	—	(40)
Purchases and other retirements of company stock	(75,577)	—	—	—	—	(75,577)
Proceeds from issuance of common stock	474	—	—	—	—	474
Excess tax benefits from share-based payment arrangements	—	2,093	—	—	—	2,093
Dividends paid	(25,495)	—	—	—	—	(25,495)
Net cash provided by (used in) financing activities	(100,598)	2,093	(40)	—	—	(98,545)
Effect of exchange rate changes on cash	—	—	—	239	—	239
Net increase (decrease) in cash and cash equivalents	—	(71,136)	(3,646)	1,279	—	(73,503)
Cash and cash equivalents — beginning of period	—	142,253	4,953	673	—	147,879
Cash and cash equivalents — end of period	\$ —	\$ 71,117	\$ 1,307	\$ 1,952	\$ —	\$ 74,376

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#### CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

(in thousands)

**Year Ended June 30, 2007**

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net cash provided by (used in) operating activities	\$ 81,428	\$ (32,386)	\$ 69,841	\$ 306	\$ —	\$ 119,189
Cash flows from investing activities:						
Capital expenditures	—	(2,713)	(56,084)	(276)	—	(59,073)
Acquisitions	—	—	(15,297)	—	—	(15,297)
Proceeds from the disposal of property, plant and equipment	—	—	5,431	—	—	5,431
Other	—	198	—	—	—	198

Net cash used in investing activities	—	(2,515)	(65,950)	(276)	—	(68,741)
Cash flows from financing activities:						
Payments on long-term debt	—	—	(38)	—	—	(38)
Payment of deferred financing costs	—	(107)	—	—	—	(107)
Purchases and other retirements of company stock	(57,152)	—	—	—	—	(57,152)
Proceeds from the issuance of common stock	521	—	—	—	—	521
Excess tax benefits from share-based payment arrangements	—	5,015	—	—	—	5,015
Dividends paid	(24,797)	—	—	—	—	(24,797)
Net cash provided by (used in) financing activities	(81,428)	4,908	(38)	—	—	(76,558)
Effect of exchange rate changes on cash	—	—	—	188	—	188
Net increase (decrease) in cash and cash equivalents	—	(29,993)	3,853	218	—	(25,922)
Cash and cash equivalents — beginning of period	—	172,246	1,100	455	—	173,801
Cash and cash equivalents — end of period	\$ —	\$ 142,253	\$ 4,953	\$ 673	\$ —	\$ 147,879

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**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

No changes in, or disagreements with, accountants as a result of accounting or financial disclosure matters, occurred during fiscal years 2009, 2008 or 2007.

**Item 9A. Controls and Procedures**

**Management’s Report on Disclosure Controls and Procedures**

Our management, including the Chairman of the Board and Chief Executive Officer (“CEO”) and the Vice President-Finance (“VPF”), conducted an evaluation of the effectiveness of disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this report. Based on such evaluation, the CEO and VPF have concluded that, as of June 30, 2009, our disclosure controls and procedures were effective in ensuring that material information relating to us (including our consolidated subsidiaries), which is required to be disclosed by us in our periodic reports filed or submitted under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and (ii) accumulated and communicated to management, including the CEO and VPF, as appropriate, to allow timely decisions regarding required disclosure.

**Management’s Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) and 15d-15(f). Under the supervision and with the participation of management, including the CEO and VPF, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on that evaluation, management concluded that our internal control over financial reporting was effective as of June 30, 2009.

KPMG LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this Annual Report on Form 10-K, has also audited the effectiveness of our internal control over financial reporting as of June 30, 2009, as stated in their report included under Item 8 of this Annual Report.

**Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth fiscal quarter ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

None.

**PART III**

Except as set forth below, the information required by Items 10, 11, 12, 13 and 14 will appear in the Ethan Allen Interiors Inc. proxy statement for the Annual Meeting of Shareholders scheduled to be held on November 17, 2009 (the “Proxy Statement”). The Proxy Statement, which will be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, is incorporated by reference in this Annual Report pursuant to General Instruction G(3) of Form 10-K (other than the portions thereof not deemed to be “filed” for the purpose of Section 18 of the Securities Exchange Act of 1934). In addition, the information set forth below is provided as required by Item 10 and the listing standards of the New York Stock Exchange (“NYSE”).

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**Item 10. Directors, Executive Officers and Corporate Governance**

**Code of Ethics**

We have adopted a code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. Our code of ethics can be accessed via our website at [www.ethanallen.com/governance](http://www.ethanallen.com/governance).

We intend to disclose any amendment of our Code of Ethics, or waiver of provision thereof, applicable to our principal executive officer and/or principal financial officer, or persons performing similar functions, on our website within 4 days of the date of such amendment or waiver. In the case of a waiver, the nature of the waiver, the name of the person to whom the waiver was granted, and the date of the waiver will also be disclosed.

### Audit Committee Financial Expert

Our Board of Directors has determined that we have three “audit committee financial experts”, as defined under Item 407(d)(5)(ii) of Regulation S-K of the Securities Exchange Act of 1934, currently serving on our Audit Committee. Those members of our Audit Committee who are deemed to be audit committee financial experts are as follows:

Clinton A. Clark  
Kristin Gamble  
Richard A. Sandberg

All persons identified as audit committee financial experts are independent from management as defined by Item 7(d)(3), of Schedule 14A.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

#### Equity Compensation Plan Information

The following table sets forth certain information regarding our equity compensation plans at June 30, 2009.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by security holders (1)	2,165,136	\$ 28.85	1,105,260
Equity compensation plans not approved by security holders (2)	—	—	—
Total	2,165,136	\$ 28.85	1,105,260

- (1) Amount includes stock options outstanding under our 1992 Stock Option Plan (the “Plan”) as well as nonvested shares of restricted stock and vested Stock Units which have been provided for under the provisions of the Plan. See Note 11 to our Consolidated Financial Statements included under Item 8 of this Annual Report.
- (2) As of June 30, 2009, we do not maintain any equity compensation plans which have not been approved by our shareholders.

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### NYSE Certification

Mr. Kathwari, Chief Executive Officer and President, has certified to the NYSE, pursuant to Section 303A.12 of the NYSE’s Listing Company Manual, that he is unaware of any violation by the Company of the NYSE’s corporate governance listing standards.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

#### I. Listing of Documents

- (1) *Financial Statements.* Our Consolidated Financial Statements, included under Item 8 hereof, as required at June 30, 2009 and 2008, and for the years ended June 30, 2009, 2008 and 2007 consist of the following:
- Consolidated Balance Sheets
- Consolidated Statements of Operations
- Consolidated Statements of Cash Flows
- Consolidated Statements of Shareholders’ Equity
- Notes to Consolidated Financial Statements
- (2) *Financial Statement Schedule.* Our Financial Statement Schedule, appended hereto, as required for the years ended June 30, 2009, 2008 and 2007 consists of the following:
- Valuation and Qualifying Accounts
- The schedules listed in Reg. 210.5-04, except those listed above, have been omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.
- (3) The following Exhibits are filed as part of this report on Form 10-K:

Exhibit Number	Exhibit
3 (a)	Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3(c) to the Registration Statement on Form S-1 of the Company filed with the SEC on March 16, 1993)
3 (a)-1	Certificate of Amendment to Restated Certificate of Incorporation as of August 5, 1997 (incorporated by reference to Exhibit 3(c)-2 to the Quarterly Report on Form 10-Q of the Company filed with the SEC on May 13, 1999)
3 (a)-2	Second Certificate of Amendment to Restated Certificate of Incorporation as of March 27, 1998 (incorporated by reference to Exhibit 3(c)-3 to the Quarterly Report on Form 10-Q of the Company filed with the SEC on May 13, 1999)



- 3 (a)-3 Third Certificate of Amendment to Restated Certificate of Incorporation as of April 28, 1999 (incorporated by reference to Exhibit 3(c)-4 to the Quarterly Report on Form 10-Q of the Company filed with the SEC on May 13, 1999)
- 3 (b) Certificate of Designation relating to the New Convertible Preferred Stock (incorporated by reference to the Registration Statement on Form S-1 of the Company filed with the SEC on March 16, 1993)
- 3 (c) Certificate of Designation relating to the Series C Junior Participating Preferred Stock (incorporated by reference to Exhibit 1 to Form 8-A of the Company filed with the SEC on July 3, 1996)

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- 3 (c)-1 Certificate of Amendment of Certificate of Designation of Series C Junior Participating Preferred Stock (incorporated by reference to Exhibit 3(c)-1 to the Annual Report on Form 10-K of the Company filed with the SEC on September 13, 2005
- 3 (d) Amended and Restated By-laws of the Company (incorporated by reference to Exhibit 3(d) to the Registration Statement on Form S-1 of the Company filed with the SEC on March 16, 1993)
- 3 (e) Certificate of Incorporation of Ethan Allen Global, Inc. (incorporated by reference to Exhibit 3(e) to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with the SEC on February 3, 2006)
- 3 (f) By-laws of Ethan Allen Global, Inc. (incorporated by reference to Exhibit 3(f) to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with the SEC on February 3, 2006)
- 3 (g) Restated Certificate of Incorporation of Ethan Allen Inc. (now known as, Ethan Allen Retail, Inc.) (incorporated by reference to Exhibit 3(g) to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with the SEC on February 3, 2006)
- 3 (g)-1 Certificate of Amendment of Restated Certificate of Incorporation of Ethan Allen Inc. (now known as Ethan Allen Retail, Inc.) as of June 29, 2005 (incorporated by reference to Exhibit 3(g)-1 to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with the SEC on February 3, 2006)
- 3 (h) Amended and Restated By-laws of Ethan Allen Inc. (now known as Ethan Allen Retail, Inc.) (incorporated by reference to Exhibit 3(h) to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with the SEC on February 3, 2006)
- 3 (i) Certificate of Incorporation of Ethan Allen Manufacturing Corporation (now known as Ethan Allen Operations, Inc.) (incorporated by reference to Exhibit 3(i) to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with the SEC on February 3, 2006)
- 3 (i)-1 Certificate of Amendment of Certificate of Incorporation of Ethan Allen Manufacturing Corporation (now known as, Ethan Allen Operations, Inc.) as of June 29, 2005 (incorporated by reference to Exhibit 3(i)-1 to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with the SEC on February 3, 2006)
- 3 (j) By-laws of Ethan Allen Manufacturing Corporation (now known as, Ethan Allen Operations, Inc.) (incorporated by reference to Exhibit 3(j) to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with the SEC on February 3, 2006)
- 3 (k) Certificate of Formation of Ethan Allen Realty, LLC (incorporated by reference to Exhibit 3(k) to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with the SEC on February 3, 2006)
- 3 (l) Limited Liability Company Operating Agreement of Ethan Allen Realty, LLC (incorporated by reference to Exhibit 3(l) to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with the SEC on February 3, 2006)
- 3 (l)-1 Amendment No. 1 to Operating Agreement of Ethan Allen Realty, LLC as of June 30, 2005 (incorporated by reference to Exhibit 3(l)-1 to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with the SEC on February 3, 2006)
- 3 (m) Certificate of Incorporation of Lake Avenue Associates, Inc. (incorporated by reference to Exhibit 3(m) to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with the SEC on February 3, 2006)
- 3 (n) By-laws of Lake Avenue Associates, Inc. (incorporated by reference to Exhibit 3(n) to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with the SEC on February 3, 2006)
- 3 (o) Certificate of Incorporation of Manor House, Inc. (incorporated by reference to Exhibit 3(o) to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with the SEC on February 3, 2006)

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- 3 (p) Restated By-laws of Manor House, Inc. (incorporated by reference to Exhibit 3(p) to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with the SEC on February 3, 2006)
- 4 (a) Rights Agreement, dated July 26, 1996, between the Company and Harris Trust and Savings Bank (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of the Company filed with the SEC on July 3, 1996)
- 4 (a)-1 Amendment No. 1 to Rights Agreement, dated as of December 23, 2004 between the Company and Harris Trust Savings Bank and Computershare Investor Services, LLC (incorporated by reference to Exhibit 4(a)-1 to the Annual Report on Form 10-K of the Company filed with the SEC on September 13, 2005)
- 4 (b) Form of outstanding 5.375% Senior Note due 2015 pursuant to Rule 144A of the Securities Act (incorporated by reference to Exhibit A to Exhibit 10.2 to the Current Report on Form 8-K of the Company filed with the SEC on September 30, 2005)
- 4 (c) Indenture dated September 27, 2005, by and among Ethan Allen Global, Inc., the Guarantors named therein, and the Initial Purchaser named therein, relating to the Notes (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Ethan Allen Interiors Inc. filed with the SEC on September 30, 2005)
- 4 (d) Form of Exchange Note (incorporated by reference to Exhibit 4(d) to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with the SEC on February 3, 2006)
- 10 (a) Restated Directors Indemnification Agreement dated March 1993, among the Company and Ethan Allen and their Directors (incorporated by reference to Exhibit 10(c) to the Registration Statement on Form S-1 of the Company filed with the SEC on March 16, 1993)
- 10 (b) The Ethan Allen Retirement Savings Plan as Amended and Restated, effective January 1, 2006 (incorporated by reference to Exhibit 10(b)-7 to the Quarterly Report on Form 10-Q of the Company filed with the SEC on November 5, 2007)
- 10 (c) General Electric Capital Corporation Credit Card Program Agreement dated August 25, 1995 (incorporated by reference from Exhibit 10(h) to the Annual Report on Form 10-K of the Company filed with the SEC on September 21, 1995)
- 10 (c)-1 First Amendment to Credit Card Program Agreement dated February 22, 2000 (incorporated by reference to Exhibit 10(h)-1 to the Annual Report on Form 10-K of the Company filed with the SEC on September 13, 2000)
- 10 (d) Sales Finance Agreement, dated June 25, 1999, between the Company and MBNA America Bank, N.A. (incorporated by reference to Exhibit 10(j) to the Annual Report on Form 10-K of the Company filed with the SEC on September 13, 2000)
- 10 (e) Second Amended and Restated Private Label Consumer Credit Card Program Agreement, dated as of July 23, 2007, by and between Ethan Allen Global, Inc., Ethan Allen Retail, Inc. and GE Money Bank (incorporated by reference to Exhibit 10(e)-3 to the Quarterly Report on Form 10-Q of the Company filed with the SEC on November 5, 2007)

10 (f)	Employment Agreement, dated As of November 13, 2007, between Mr. Kathwari and Ethan Allen Interiors Inc. (incorporated by reference to Exhibit 10(h) to the Current Report on Form 8-K of the Company filed with the SEC on November 19, 2007
10 (g)-1	Credit Agreement, dated as of July 21, 2005, by and among Ethan Allen Global, Inc., Ethan Allen Interiors Inc., the J.P. Morgan Chase Bank, N.A., Citizens Bank of Massachusetts, Wachovia Bank, N.A. and certain other lenders (incorporated by reference to Exhibit 10 (g) to Amendment No. 4 to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with

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		the SEC on March 9, 2006) (confidential treatment granted under Rule 24b-2 as to certain portions which are omitted and filed separately with the SEC)
*	10 (g)-2	Credit Agreement, dated as of May 29, 2009, among Ethan Allen Global, Inc., Ethan Allen Interiors Inc., J.P. Morgan Chase Bank, N.A., and Capital One Leverage Finance Corp (confidential treatment requested as to certain portions)
	10 (h)	Amended and Restated 1992 Stock Option Plan (incorporated by reference to Exhibit 10(f) to the Current Report on Form 8-K of the Company filed with the SEC on November 19, 2007)
	10 (h)-1	Form of Option Agreement for Grants to Independent Directors (incorporated by reference to Exhibit 10(h)-4 to the Annual Report on Form 10-K of the Company filed with the SEC on September 13, 2005
	10 (h)-2	Form of Option Agreement for Grants to Employees (incorporated by reference to Exhibit 10(h)-5 to the Annual Report on Form 10-K of the Company filed with the SEC on September 13, 2005
	10(h)-3	Form of Restricted Stock Agreement for Executives (incorporated by reference to Exhibit 10(f)-1 to the Current Report on Form 10-8 of the Company filed with the SEC on November 19, 2007
	10(h)-4	Form of Restricted Stock Agreement for Directors (incorporated by reference to Exhibit 10(f)-2 to the Current Report on Form 8-K of the Company filed with the SEC on November 19, 2007
	10 (i)	Purchase Agreement dated September 22, 2005, by and between Ethan Allen Global, Inc., the Guarantors named therein, and the Initial Purchaser named therein, relating to the Initial Notes (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of the Company filed with the SEC on September 30, 2005)
	10 (j)	Registration Rights Agreement dated September 27, 2005, by and among Ethan Allen Global, Inc., the Guarantors named therein, and the Initial Purchaser named therein, relating to the Notes (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K of Ethan Allen Interiors Inc. filed with the SEC on September 30, 2005)
*	12 (a)	Computation of Ratio of Earnings to Fixed Charges
*	21	List of wholly-owned subsidiaries of the Company
*	23	Report and Consent of KPMG LLP
*	31.1	Rule 13a-14(a) Certification of Principal Executive Officer
*	31.2	Rule 13a-14(a) Certification of Principal Financial Officer
*	32.1	Section 1350 Certification of Principal Executive Officer
*	32.2	Section 1350 Certification of Principal Financial Officer

\* Filed herewith.

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**ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES**  
**SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS**  
**As of and for the Fiscal Years Ended June 30, 2009, 2008 and 2007**  
**(In thousands)**

	Balance at Beginning of Period	Additions (Reductions) Charged to Income	Adjustments and/or Deductions	Balance at End of Period
<b>Accounts Receivable:</b>				
Sales discounts, sales returns and allowance for doubtful accounts:				
June 30, 2009	\$ 2,535	\$ (773)	\$ (400)	\$ 1,362
June 30, 2008	\$ 2,042	\$ 493	\$ —	\$ 2,535
June 30, 2007	\$ 2,074	\$ 10	\$ (42)	\$ 2,042
<b>Inventory:</b>				
Inventory valuation allowance:				
June 30, 2009	\$ 2,260	\$ —	\$ (56)	\$ 2,204
June 30, 2008	\$ 2,930	\$ —	\$ (670)	\$ 2,260
June 30, 2007	\$ 2,930	\$ —	\$ —	\$ 2,930

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**SIGNATURES**

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

ETHAN ALLEN INTERIORS INC.  
(Registrant)

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

By /s/ David R. Callen  
(David R. Callen)  
Vice President, Finance and Treasurer  
(Principal Financial Officer and  
Principal Accounting Officer)

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

<u>/s/ M. Farooq Kathwari</u> (M. Farooq Kathwari)	Chairman, President and Chief Executive Officer (Principal Executive Officer)
<u>/s/ David R. Callen</u> (David R. Callen)	Vice President, Finance and Treasurer (Principal Financial Officer and Principal Accounting Officer)
<u>/s/ John P. Birkelund</u> (John P. Birkelund)	Director
<u>/s/ Clinton A. Clark</u> (Clinton A. Clark)	Director
<u>/s/ Kristin Gamble</u> (Kristin Gamble)	Director
<u>/s/ Edward H. Meyer</u> (Edward H. Meyer)	Director
<u>/s/ Richard A. Sandberg</u> (Richard A. Sandberg)	Director
<u>/s/ Frank G. Wisner</u> (Frank G. Wisner)	Director

Date: August 24, 2009

ETHAN ALLEN INTERIORS INC. HAS CLAIMED CONFIDENTIAL TREATMENT OF PORTIONS OF THIS DOCUMENT IN ACCORDANCE WITH  
RULE 24-B UNDER THE SECURITIES EXCHANGE ACT OF 1934

# J.P.Morgan

## CREDIT AGREEMENT

dated as of

May 29, 2009

Among

ETHAN ALLEN GLOBAL, INC.  
as Borrower

ETHAN ALLEN INTERIORS INC.

The Other Loan Parties Party Hereto

The Lenders Party Hereto

JPMORGAN CHASE BANK, N.A.  
as Administrative Agent

JPMORGAN CHASE BANK, N.A.  
as Syndication Agent

and

CAPITAL ONE LEVERAGE FINANCE CORP.  
as Documentation Agent

J.P. MORGAN SECURITIES INC.  
as Sole Bookrunner and Sole Lead Arranger

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#### EXHIBITS:

Exhibit A — Form of Assignment and Assumption
Exhibit B — Forms of Opinions of Loan Parties' Counsels
Exhibit C — Form of Borrowing Base Certificate
Exhibit D — Form of Compliance Certificate
Exhibit E — Joinder Agreement
Exhibit F — List of Closing Documents

CREDIT AGREEMENT dated as of May 29, 2009 (as it may be amended or modified from time to time, this "Agreement"), among ETHAN ALLEN GLOBAL, INC., ETHAN ALLEN INTERIORS INC., the other Loan Parties party hereto, the Lenders party hereto, JPMORGAN CHASE BANK, N.A., as Administrative Agent, JPMORGAN CHASE BANK, N.A., as Syndication Agent and CAPITAL ONE LEVERAGE FINANCE CORP., as Documentation Agent.

The parties hereto agree as follows:

#### ARTICLE I

##### Definitions

SECTION 1.01. Defined Terms. As used in this Agreement, the following terms have the meanings specified below:

"ABR", when used in reference to any Loan or Borrowing, refers to a Loan, or the Loans comprising such Borrowing, bearing interest at a rate determined by reference to the Alternate Base Rate.

"Account" has the meaning assigned to such term in the Security Agreement.

"Account Debtor" means any Person obligated on an Account.

"Adjusted LIBO Rate" means, with respect to any Eurodollar Borrowing for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to (a) the LIBO Rate for such Interest Period multiplied by (b) the Statutory Reserve Rate.

"Administrative Agent" means JPMorgan Chase Bank, N.A., in its capacity as administrative agent for the Lenders hereunder.

"Administrative Questionnaire" means an Administrative Questionnaire in a form supplied by the Administrative Agent.

"Affected Foreign Subsidiary" means any Foreign Subsidiary to the extent greater than 65% of the Equity Interests of such Foreign Subsidiary being pledged to support the Secured Obligations would cause a Deemed Dividend Problem.

“Affiliate” means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

“Aggregate Commitment” the aggregate of the Commitments of all of the Lenders, as reduced from time to time pursuant to the terms and conditions hereof.

“Aggregate Credit Exposure” means, at any time, the aggregate Credit Exposure of all the Lenders.

“Alternate Base Rate” means, for any day, a rate per annum equal to the greatest of (a) the Prime Rate in effect on such day, (b) the Federal Funds Effective Rate in effect on such day plus  $\frac{1}{2}$  of 1% and (c) the Adjusted LIBO Rate for a one month Interest Period on such day (or if such day is not a Business Day, the immediately preceding Business Day) plus 1%; provided that, for the avoidance of doubt, the Adjusted LIBO Rate for any day shall be based on the rate appearing on the Reuters Screen

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LIBOR01 Page (or on any successor or substitute page of such page) at approximately 11:00 a.m. London time on such day (without any rounding). Any change in the Alternate Base Rate due to a change in the Prime Rate, the Federal Funds Effective Rate or the Adjusted LIBO Rate shall be effective from and including the effective date of such change in the Prime Rate, the Federal Funds Effective Rate or the Adjusted LIBO Rate, respectively.

“Applicable Percentage” means, with respect to any Lender, (a) with respect to Revolving Loans, LC Exposure, Swingline Loans or Overadvances, a percentage equal to a fraction the numerator of which is such Lender’s Commitment and the denominator of which is the aggregate Commitment of all Lenders (if the Commitments have terminated or expired, the Applicable Percentages shall be determined based upon such Lender’s share of the aggregate Revolving Exposures at that time); provided that in the case of Section 2.20 when a Defaulting Lender shall exist, any such Defaulting Lender’s Commitment shall be disregarded in the calculation and (b) with respect to Protective Advances or with respect to the Aggregate Credit Exposure, a percentage based upon its share of the Aggregate Credit Exposure and the unused Commitments; provided that in the case of Section 2.20 when a Defaulting Lender shall exist, any such Defaulting Lender’s Commitment shall be disregarded in the calculation.

“Applicable Pledge Percentage” means 100% but 65% in the case of a pledge by Holdings, the Borrower or any Domestic Subsidiary of its Equity Interests in a Foreign Subsidiary that is an Affected Foreign Subsidiary due to a Deemed Dividend Problem.

“Applicable Rate” means, for any day, with respect to any ABR Loan or Eurodollar Revolving Loan, or with respect to the commitment fees payable hereunder, as the case may be, the applicable rate per annum set forth below under the caption “ABR Spread”, “Eurodollar Spread” or “Commitment Fee Rate”, as the case may be, based upon the Average Quarterly Availability during the most recently ended fiscal quarter of Holdings:

	Average Quarterly Availability	Commitment Fee Rate	Eurodollar Spread	ABR Spread
Category 1	Greater than \$40,000,000	0.50 %	3.25 %	2.25 %
Category 2	Less than or equal to \$40,000,000 but greater than \$20,000,000	0.50 %	3.75 %	2.75 %
Category 3	Less than or equal to \$20,000,000	0.50 %	4.25 %	3.25 %

For purposes of the foregoing, (a) the Applicable Rate shall be determined as of the end of each fiscal quarter of Holdings based upon the Borrowing Base Certificates and related information that are delivered from time to time pursuant to Section 5.01 and (b) each change in the Applicable Rate resulting from a change in Average Quarterly Availability shall be effective during the period commencing on and including the date of delivery to the Administrative Agent as of the end of the most recent fiscal quarter and ending on the date immediately preceding the effective date of the next such change, provided that the Average Quarterly Availability shall be deemed to be (i) in Category 2 during the period from the Effective Date to the date of delivery to the Administrative Agent of the Borrowing Base Certificate for the fiscal quarter ending on or about September 30, 2009 and (ii) in Category 3 (A) at

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any time that an Event of Default has occurred and is continuing or (B) at the option of the Administrative Agent or at the request of the Required Lenders if Holdings or the Borrower fail to deliver any Borrowing Base Certificate or related information that is required to be delivered by them pursuant to Section 5.01, during the period from the expiration of the time for delivery thereof until each such Borrowing Base Certificate and related information pursuant to Section 5.01 is so delivered; provided further that if any Borrowing Base Certificate is at any time restated or otherwise revised or if the information set forth in any Borrowing Base Certificate otherwise proves to be false or incorrect such that the Applicable Rate would have been higher than was otherwise in effect during any period, without constituting a waiver of any Default or Event of Default arising as a result thereof, the Applicable Rate shall be immediately recalculated at such higher rate for any applicable periods and shall be due and payable on demand.

“Approved Fund” has the meaning assigned to such term in Section 9.04.

“Assignment and Assumption” means an assignment and assumption agreement entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section 9.04), and accepted by the Administrative Agent, in the form of Exhibit A or any other form approved by the Administrative Agent.

“Availability” means, at any time, an amount equal to (a) the lesser of (i) the Aggregate Commitment and (ii) the Borrowing Base minus (b) the Revolving Exposure of all Lenders.

“Availability Period” means the period from and including the Effective Date to but excluding the earlier of the Maturity Date and the date of termination of the Commitments.

“Availability Trigger” shall be in effect at any time that the average Availability for the most recently ended calendar month is less than an amount equal to the greater of (i) 20% of the Aggregate Commitment at such time and (ii) \$10,000,000.

“Available Commitment” means, at any time, the Aggregate Commitment then in effect minus the Revolving Exposure of all Lenders at such time; it being understood and agreed that any Lender’s Swingline Exposure shall not be deemed to be a component of the Revolving Exposure for purposes of calculating the commitment fee under Section 2.12(a).

“Average Quarterly Availability” means, for any fiscal quarter, an amount equal to the average daily Availability during such quarter.

“Banking Services” means each and any of the following bank services provided to any Loan Party by any Lender or any of its Affiliates: (a) credit cards for commercial customers (including, without limitation, “commercial credit cards” and purchasing cards), (b) stored value cards and (c) treasury management services (including, without limitation, controlled disbursement, automated clearinghouse transactions, return items, overdrafts and interstate depository network services).

“Banking Services Obligations” of the Loan Parties means any and all obligations of the Loan Parties, whether absolute or contingent and howsoever and whensoever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefor) in connection with Banking Services.

“Banking Services Reserves” means all Reserves which the Administrative Agent from time to time establishes in its Permitted Discretion for Banking Services then provided or outstanding.

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“Board” means the Board of Governors of the Federal Reserve System of the United States of America.

“Borrower” means Ethan Allen Global, Inc., a Delaware corporation.

“Borrowing” means (a) Revolving Loans of the same Type, made, converted or continued on the same date and, in the case of Eurodollar Loans, as to which a single Interest Period is in effect, (b) a Swingline Loan, (c) a Protective Advance and (d) an Overadvance.

“Borrowing Base” means, at any time, the sum of (a) up to 90% of the Eligible Credit Card Receivables, plus (b) up to 85% of the Eligible Accounts at such time, plus (b) the lesser of (i) up to 70% of the Eligible Inventory, valued at the lower of cost or market value, determined on a first-in-first-out basis, at such time and (ii) the product of up to 85% multiplied by the Net Orderly Liquidation Value percentage identified in the most recent inventory appraisal ordered by the Administrative Agent multiplied by the Eligible Inventory, valued at the lower of cost or market value, determined on a first-in-first-out basis, at such time minus (c) Reserves. The Administrative Agent may, in its Permitted Discretion, reduce the advance rates set forth above, adjust Reserves or reduce one or more of the other elements used in computing the Borrowing Base.

“Borrowing Base Certificate” means a certificate, signed and certified as accurate and complete by a Financial Officer of the Borrower, in substantially the form of Exhibit C or another form which is acceptable to the Administrative Agent in its Permitted Discretion.

“Borrowing Request” means a request by the Borrower for a Revolving Borrowing in accordance with Section 2.03.

“Burdensome Restrictions” means any consensual encumbrance or restriction of the type described in clause (a) or (b) of Section 6.10.

“Business Day” means any day that is not a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to remain closed; provided that, when used in connection with a Eurodollar Loan, the term “Business Day” shall also exclude any day on which banks are not open for dealings in dollar deposits in the London interbank market.

“Capital Expenditures” means, without duplication, any expenditure or commitment to expend money for any purchase or other acquisition of any asset which would be classified as a fixed or capital asset on a consolidated balance sheet of Holdings and its Subsidiaries prepared in accordance with GAAP.

“Capital Lease Obligations” of any Person means the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP.

“Change in Control” means (a) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group (within the meaning of the Securities Exchange Act of 1934 and the rules of the Securities and Exchange Commission thereunder as in effect on the date hereof), of Equity Interests representing more than 50% of the aggregate ordinary voting power represented by the issued and outstanding Equity Interests of Holdings; (b) occupation of a majority of the seats (other than vacant seats) on the board of directors of Holdings by Persons who were neither (i) nominated by the

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board of directors of the Borrower nor (ii) appointed by directors so nominated; or (c) the acquisition of direct or indirect Control of Holdings by any Person or group; (d) the occurrence of a change in control, or other similar provision, as defined in any agreement or instrument evidencing any Material Indebtedness (triggering a default or mandatory prepayment, which default or mandatory prepayment has not been waived in writing); or (e) Holdings shall cease to own, directly or (through another Loan Party) indirectly, 100% of the capital stock of the Borrower.

“Change in Law” means (a) the adoption of any law, rule or regulation after the date of this Agreement, (b) any change in any law, rule or regulation or in the interpretation or application thereof by any Governmental Authority after the date of this Agreement or (c) compliance by any Lender or the Issuing Bank (or, for purposes of Section 2.15(b), by any lending office of such Lender or by such Lender’s or the Issuing Bank’s holding company, if any) with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after the date of this Agreement.

“Chase” means JPMorgan Chase Bank, N.A., a national banking association, in its individual capacity, and its successors.

“Class”, when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are Revolving Loans, Swingline Loans, Protective Advances or Overadvances.

“Code” means the Internal Revenue Code of 1986, as amended from time to time.

“Collateral” means any and all property owned, leased or operated by any Loan Party, now existing or hereafter acquired, that may at any time be or become subject to a security interest or Lien in favor of the Administrative Agent, on behalf of itself and the Secured Parties, to secure the Secured Obligations; provided that “Collateral” shall not include any Excluded Assets.

“Collateral Access Agreement” has the meaning assigned to such term in the Security Agreement.

“Collateral Documents” means, collectively, the Security Agreement and any other documents granting a Lien upon property as security for payment of the Secured Obligations.

“Collection Account” has the meaning assigned to such term in the Security Agreement.

“Commercial LC Exposure” means, at any time, the sum of (a) the aggregate undrawn amount of all outstanding Commercial Letters of Credit at such time plus (b) the aggregate amount of all LC Disbursements relating to Commercial Letters of Credit that have not yet been reimbursed by or on behalf of the Borrower at such time. The Commercial LC Exposure of any Lender at any time shall be its Applicable Percentage of the total Commercial LC Exposure at such time.

“Commercial Letters of Credit” means all Letters of Credit other than standby Letters of Credit.

“Commitment” means, with respect to each Lender, the commitment, if any, of such Lender to make Revolving Loans and to acquire participations in Letters of Credit, Protective Advances, Overadvances and Swingline Loans hereunder, expressed as an amount representing the maximum possible aggregate amount of such Lender’s Revolving Exposure hereunder, as such commitment may be reduced or increased from time to time pursuant to (a) Section 2.09 and (b) assignments by or to such

Lender pursuant to Section 9.04. The initial amount of each Lender’s Commitment is set forth on Schedule 2.01, or in the Assignment and Assumption or other documentation contemplated hereby pursuant to which such Lender shall have assumed its Commitment, as applicable.

“Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. “Controlling” and “Controlled” have meanings correlative thereto.

“Controlled Disbursement Account” means any accounts of any Loan Party maintained with the Administrative Agent as a zero balance, cash management account pursuant to and under any agreement between the such Loan Party and the Administrative Agent, as modified and amended from time to time, and through which all disbursements of such Loan Party, any Loan Party and any designated Subsidiary of Holdings are made and settled on a daily basis with no uninvested balance remaining overnight.

“Credit Card Account Receivables” means any receivables due to any Loan Party on a non-recourse basis (it being understood, for the avoidance of doubt, that normal return policies of any Loan Party shall not be deemed to be with recourse) in connection with purchases from and other goods and services provided by such Loan Party from: Visa, MasterCard, American Express and such other Credit Card Processor acceptable to the Administrative Agent in its Permitted Discretion, in each case which have been earned by performance by such Loan Party but not yet paid to such Loan Party by the Credit Card Processor; provided, that Credit Card Account Receivables shall be calculated net of fees and chargebacks owed to credit card processors and deposits, holdbacks or escrows held by credit card processors.

“Credit Card Processor” means a Person that provides credit card processing services for any merchant.

“Credit Exposure” means, as to any Lender at any time, the sum of (a) such Lender’s Revolving Exposure at such time plus (b) an amount equal to its Applicable Percentage, if any, of the aggregate principal amount of Protective Advances outstanding at such time.

“Deemed Dividend Problem” means, with respect to any Foreign Subsidiary, such Foreign Subsidiary’s accumulated and undistributed earnings and profits being deemed to be repatriated to Holdings, the Borrower or the applicable parent Domestic Subsidiary under Section 956 of the Code and the effect of such repatriation causing materially adverse tax consequences to Holdings, the Borrower or such parent Domestic Subsidiary, in each case as determined by Holdings and the Borrower in their commercially reasonable judgment acting in good faith and in consultation with their legal and tax advisors.

“Default” means any event or condition which constitutes an Event of Default or which upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

“Defaulting Lender” means any Lender, as determined by the Administrative Agent, that has (a) failed to fund any portion of its Loans or participations in Letters of Credit or Swingline Loans within three (3) Business Days of the date required to be funded by it hereunder, (b) notified the Borrower, the Administrative Agent, the Issuing Bank, the Swingline Lender or any Lender in writing that it does not intend to comply with any of its funding obligations under this Agreement or has made a public statement to the effect that it does not intend to comply with its funding obligations under this Agreement or under other agreements in which it commits to extend credit, (c) failed, within three (3) Business Days after request by the Administrative Agent, to confirm that it will comply with the terms of

this Agreement relating to its obligations to fund prospective Loans and participations in then outstanding Letters of Credit and Swingline Loans, (d) otherwise failed to pay over to the Administrative Agent or any other Lender any other amount required to be paid by it hereunder within three (3) Business Days of the date when due, unless the subject of a good faith dispute, or (e) (i) become or is insolvent or has a parent company that has become or is insolvent or (ii) become the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or custodian appointed for it, or has taken any action in furtherance of, or indicating its consent to, approval of or acquiescence in any such proceeding or appointment or has a parent company that has become the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or custodian appointed for it, or has taken any action in furtherance of, or indicating its consent to, approval of or acquiescence in any such proceeding or appointment.

“Disclosed Matters” means the actions, suits and proceedings and the environmental matters disclosed in Schedule 3.06.

“Document” has the meaning assigned to such term in the Security Agreement.

“Documentation Agent” means Capital One Leverage Finance Corp. in its capacity as documentation agent for the credit facility evidenced by this Agreement.

“dollars” or “\$” refers to lawful money of the United States of America.

“Domestic Subsidiary” means a Subsidiary organized under the laws of a jurisdiction located in the United States of America.

“EBITDA” means, for any period, Net Income for such period, before giving effect to any extraordinary gains or losses or any gains or losses resulting from sales of assets (other than sales of inventory in the ordinary course of business), plus, to the extent deducted in computing such Net Income, the sum of (a) income tax expense (whether paid or deferred), (b) Interest Expense, (c) depreciation and amortization and (d) any non-cash charges resulting from any restructuring or consolidation of operations or any grant, exercise or cancellation of stock options or warrants.

“Effective Date” means the date on which the conditions specified in Section 4.01 are satisfied (or waived in accordance with Section 9.02).

“Eligible Accounts” means, at any time, the Accounts of any Loan Party which the Administrative Agent determines in its Permitted Discretion are eligible as the basis for the extension of Revolving Loans, Swingline Loans and the issuance of Letters of Credit hereunder. Without limiting the Administrative Agent’s discretion

provided herein, Eligible Accounts shall not include any Account:

- (a) which is not subject to a first priority perfected security interest in favor of the Administrative Agent;
- (b) which is subject to any Lien other than (i) a Lien in favor of the Administrative Agent and (ii) a Permitted Encumbrance which does not have priority over the Lien in favor of the Administrative Agent;

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- (c) which (i) is unpaid more than 90 days after the date of the original invoice therefor or more than 60 days after the original due date, or (ii) has been written off the books of such Loan Party or otherwise designated as uncollectible;
- (d) which is owing by an Account Debtor for which more than 50% of the Accounts owing from such Account Debtor and its Affiliates are ineligible hereunder;
- (e) which is owing by an Account Debtor to the extent the aggregate amount of Accounts owing from such Account Debtor and its Affiliates to such Loan Party exceeds 10% of the aggregate amount of Eligible Accounts;
- (f) with respect to which any covenant, representation, or warranty contained in this Agreement or in the Security Agreement has been breached or is not true in any material respect;
- (g) which (i) does not arise from the sale of goods or performance of services in the ordinary course of business, (ii) is not evidenced by an invoice or other documentation the form of which is satisfactory to the Administrative Agent in its Permitted Discretion and which has been sent to the Account Debtor, (iii) represents a progress billing, (iv) is contingent upon such Loan Party's completion of any further performance, (v) represents a sale on a bill-and-hold, guaranteed sale, sale-and-return, sale on approval, consignment, cash-on-delivery or any other repurchase or return basis (other than, for the avoidance of doubt, normal wholesale customer return policies in respect of warranty claims) or (vi) relates to payments of interest;
- (h) for which the goods giving rise to such Account have not been shipped to the Account Debtor or for which the services giving rise to such Account have not been performed by such Loan Party or if such Account was invoiced more than once;
- (i) with respect to which any check or other instrument of payment has been returned uncollected for any reason;
- (j) which is owed by an Account Debtor which has (i) applied for, suffered, or consented to the appointment of any receiver, custodian, trustee, or liquidator of its assets, (ii) has had possession of all or a material part of its property taken by any receiver, custodian, trustee or liquidator, (iii) filed, or had filed against it, any request or petition for liquidation, reorganization, arrangement, adjustment of debts, adjudication as bankrupt, winding-up, or voluntary or involuntary case under any state or federal bankruptcy laws, (iv) has admitted in writing its inability, or is generally unable to, pay its debts as they become due, (v) become insolvent, or (vi) ceased operation of its business;
- (k) which is owed by any Account Debtor which has sold all or a substantially all of its assets unless the Account has been assumed by a party of at least equal creditworthiness in the Administrative Agent's Permitted Discretion;
- (l) which is owed by an Account Debtor which (i) does not maintain its chief executive office in the U.S. or Canada or (ii) is not organized under applicable law of the U.S., any state of the U.S., Canada, or any province of Canada unless, in either case, such Account is backed by (A) a letter of credit acceptable to the Administrative Agent which is in the possession of, has been assigned to and is directly drawable by the Administrative Agent or (B) security equivalent to such a letter of credit and reasonably acceptable to the Administrative Agent;
- (m) which is owed in any currency other than U.S. dollars;

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- (n) which is owed by (i) the government (or any department, agency, public corporation, or instrumentality thereof) of any country other than the U.S. unless such Account is backed by a Letter of Credit acceptable to the Administrative Agent in its Permitted Discretion and which is in the possession of the Administrative Agent, or (ii) the government of the U.S., or any department, agency, public corporation, or instrumentality thereof, unless the Federal Assignment of Claims Act of 1940, as amended (31 U.S.C. § 3727 et seq. and 41 U.S.C. § 15 et seq.), and any other steps necessary to perfect the Lien of the Administrative Agent in such Account have been complied with to the Administrative Agent's satisfaction;
- (o) which is owed by any Affiliate, employee, officer, director, agent or stockholder of any Loan Party (to the extent such stockholder owns or controls 5% or more of the Equity Interests in a Loan Party);
- (p) which, for any Account Debtor, exceeds a credit limit determined by the Administrative Agent, to the extent of such excess;
- (q) which is owed by an Account Debtor or any Affiliate of such Account Debtor to which any Loan Party is indebted, but only to the extent of such indebtedness or is subject to any security, deposit, progress payment, retainage or other similar advance made by or for the benefit of an Account Debtor, in each case to the extent thereof;
- (r) which is subject to any counterclaim (to the extent asserted), deduction, defense, setoff or dispute, but only to the extent of such counterclaim, deduction, defense, setoff or dispute;
- (s) which is evidenced by any promissory note, chattel paper, or instrument;
- (t) which is owed by an Account Debtor located in any jurisdiction which requires filing of a "Notice of Business Activities Report" or other similar report in order to permit the applicable Loan Party to seek judicial enforcement in such jurisdiction of payment of such Account, unless such Loan Party has filed such report or qualified to do business in such jurisdiction;
- (u) with respect to which such Loan Party has made any agreement with the Account Debtor for any reduction thereof, other than discounts and adjustments given in the ordinary course of business, or any Account which was partially paid and such Loan Party created a new receivable for the unpaid portion of such Account;
- (v) which does not comply in all material respects with the requirements of all applicable laws and regulations, whether Federal, state or local, including without limitation the Federal Consumer Credit Protection Act, the Federal Truth in Lending Act and Regulation Z of the Board;

(w) which is for goods that have been sold under a purchase order or pursuant to the terms of a contract or other agreement or understanding (written or oral) that indicates or purports that any Person other than such Loan Party has or has had an ownership interest in such goods, or which indicates any party other than such Loan Party as payee or remittance party;

(x) which was created on cash on delivery terms;

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(y) which is subject to any limitation on assignments or other security interests (whether arising by operation of law, by agreement or otherwise), unless the Administrative Agent has determined that such limitation is not enforceable;

(z) which is governed by the laws of any jurisdiction other than the United States, any State thereof or the District of Columbia;

(aa) in respect of which the Account Debtor is a consumer within applicable consumer protection litigation; or

(bb) which the Administrative Agent determines in its Permitted Discretion may not be paid by reason of the Account Debtor's inability to pay or which the Administrative Agent otherwise determines in its Permitted Discretion is unacceptable.

In the event that an Account which was previously an Eligible Account (in an amount of at least \$5,000,000) ceases to be an Eligible Account hereunder by virtue of the foregoing clauses (j), (k) or (l), the Borrower shall notify the Administrative Agent thereof on and at the time of submission to the Administrative Agent of the next Borrowing Base Certificate. In determining the amount of an Eligible Account, the face amount of an Account may, in the Administrative Agent's Permitted Discretion, be reduced by, without duplication, to the extent not reflected in such face amount, (i) the amount of all accrued and actual discounts, claims, credits or credits pending, promotional program allowances, price adjustments, finance charges or other allowances (including any amount that the applicable Loan Party may be obligated to rebate to an Account Debtor pursuant to the terms of any agreement or understanding (written or oral)) and (ii) the aggregate amount of all cash received in respect of such Account but not yet applied by the applicable Loan Party to reduce the amount of such Account. For the avoidance of doubt, no Credit Card Account Receivable shall constitute an Eligible Account under this Agreement.

"Eligible Credit Card Account Receivables" means any Credit Card Account Receivable that (i) has been earned and represents the bona fide amounts due to a Loan Party from a Credit Card Processor, and in each case originated in the ordinary course of business of the applicable Loan Party and (ii) is not excluded as an Eligible Credit Card Receivable pursuant to any of clauses (a) through (l) below. Without limiting the foregoing, to qualify as an Eligible Credit Card Account Receivable, a Credit Card Account Receivable shall indicate no person other than a Loan Party as payee or remittance party. Eligible Credit Card Account Receivable shall not include any Credit Card Account Receivable if:

(a) such Credit Card Account Receivable is not owned by a Loan Party and such Loan Party does not have good or marketable title to such Credit Card Account Receivable;

(b) such Credit Card Account Receivable does not constitute an "Account" (as defined in the UCC) or such Credit Card Account Receivable has been outstanding more than five (5) Business Days;

(c) the Credit Card Processor of the applicable credit card with respect to such Credit Card Account Receivable is the subject of any bankruptcy or insolvency proceedings;

(d) such Credit Card Account Receivable is not a valid, legally enforceable obligation of the applicable credit card issuer with respect thereto;

(e) such Credit Card Account Receivable is not subject to a properly perfected security interest in favor of the Administrative Agent, or is subject to any Lien whatsoever other than Permitted Encumbrances contemplated by the processor agreements and for which

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appropriate reserves (as determined by the Administrative Agent in its Permitted Discretion) have been established or maintained by the Loan Parties;

(f) such Credit Card Account Receivable does not conform in all material respects to all representations, warranties or other provisions in the Loan Documents or in the credit card agreements relating to such Credit Card Account Receivable;

(g) such Credit Card Account Receivable is subject to risk of set-off, non-collection or not being processed due to unpaid or overdue Credit Card Processor fee balances;

(h) such Credit Card Account Receivable is evidenced by "chattel paper" or an "instrument" of any kind unless such "chattel paper" or "instrument" is in the possession of the Administrative Agent, and to the extent necessary or appropriate, endorsed to the Administrative Agent;

(i) such Credit Card Account Receivable has been disputed, or with respect to which a claim, counterclaim, offset or chargeback has been asserted, by the related Credit Card Processor;

(j) such Credit Card Account Receivable is due from a Credit Card Processor which the Administrative Agent determines in its Permitted Discretion to be unlikely to be collected;

(k) other than for the ninety (90) days immediately following the Effective Date, such Credit Card Account Receivable is due from a Credit Card Processor with respect to which a Processor Control Agreement has not been obtained; or

(l) such Credit Card Account Receivable does not meet such other usual and customary eligibility criteria for Credit Card Account Receivables as the Administrative Agent may determine from time to time in its Permitted Discretion.

In determining the amount to be so included in the calculation of the value of an Eligible Credit Card Receivable, the face amount thereof shall be reduced by, without duplication, to the extent not reflected in such face amount, (i) the amount of all customary fees and expenses in connection with any credit card arrangements and (ii) the aggregate amount of all cash received in respect thereof but not yet applied by the applicable Loan Party to reduce the amount of such Eligible Credit Card Account Receivable.

"Eligible Inventory" means, at any time, the Inventory of a Loan Party which the Administrative Agent determines in its Permitted Discretion is eligible as the basis for the extension of Revolving Loans, Swingline Loans and the issuance of Letters of Credit hereunder. Without limiting the Administrative Agent's discretion



permitted herein, Eligible Inventory shall not include any Inventory:

- (a) which is not subject to a first priority perfected Lien in favor of the Administrative Agent;
- (b) which is subject to any Lien other than (i) a Lien in favor of the Administrative Agent and (ii) a Permitted Encumbrance which does not have priority over the Lien in favor of the Administrative Agent;
- (c) which is, in the determination of the Borrower in its ordinary course of business with the approval of the Administrative Agent in its Permitted Discretion, unmerchantable,

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defective, used, unfit for sale, not salable at prices approximating at least the cost of such Inventory in the ordinary course of business or unacceptable due to age, type, category and/or quantity;

- (d) with respect to which any covenant, representation, or warranty contained in this Agreement or the Security Agreement has been breached or is not true in any material respect and which does not conform in all material respects to all standards imposed by any Governmental Authority;
- (e) in which any Person other than a Loan Party shall (i) have any direct or indirect ownership, interest or title to such Inventory or (ii) be indicated on any purchase order or invoice with respect to such Inventory as having or purporting to have an interest therein;
- (f) which constitutes work-in-process, spare or replacement parts, subassemblies, packaging and shipping material, manufacturing supplies, samples, prototypes, displays or display items (except to the extent saleable as finished goods in the ordinary course of business), bill-and-hold goods, goods that are returned or marked for return, repossessed goods, defective or damaged goods, goods held on consignment, or goods which are not of a type held for sale in the ordinary course of business;
- (g) which is not located in the U.S. or is in transit with a common carrier from vendors and suppliers located outside of the U.S.; provided that Inventory in transit from vendors and suppliers having a value (based on invoiced amounts) not exceeding \$7,000,000 in the aggregate at any time shall not be excluded from "Eligible Inventory" pursuant to this clause (g) so long as (i) such Inventory has been paid for in full by the applicable Loan Party, (ii) the Administrative Agent shall have received evidence that such Inventory is covered by casualty insurance and the Administrative Agent shall have been named as loss payee with respect to such casualty insurance, and (iii) other than for the sixty (60) days following the Effective Date, the Administrative Agent shall have received, to the extent requested by the Administrative Agent in its Permitted Discretion, a duly executed Collateral Access Agreement from the applicable Loan Party's customs broker with respect to such Inventory;
- (h) other than for the sixty (60) days immediately following the Effective Date, which is located in a warehouse, distribution center, regional distribution center or depot located in any location leased by the applicable Loan Party unless (i) the lessor has delivered to the Administrative Agent a Collateral Access Agreement or (ii) a Reserve for rent, charges, and other amounts due or to become due with respect to such facility has been established by the Administrative Agent in its Permitted Discretion;
- (i) which is located in a store or other retail location located in any location leased by the applicable Loan Party in any Landlord Lien State unless (i) the lessor has delivered to the Administrative Agent a Collateral Access Agreement, (ii) a Rent Reserve has been established by the Administrative Agent in its Permitted Discretion or (iii) the landlord has waived any applicable lien pursuant to documentation satisfactory to the Administrative Agent in its Permitted Discretion;
- (j) other than for the sixty (60) days immediately following the Effective Date, which is located in any third party warehouse or is in the possession of a bailee (other than a third party processor) and is not evidenced by a Document, unless (i) such warehouseman or bailee has delivered to the Administrative Agent a Collateral Access Agreement and such other

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documentation as the Administrative Agent may require in its Permitted Discretion or (ii) a Rent Reserve has been established by the Administrative Agent in its Permitted Discretion;

- (k) which is being processed offsite at a third party location or outside processor, or is in-transit to or from said third party location or outside processor;
- (l) which is a discontinued product or component thereof;
- (m) which is the subject of a consignment by the applicable Loan Party as consignor;
- (n) which contains or bears any intellectual property rights licensed to the applicable Loan Party unless the Administrative Agent is satisfied in its Permitted Discretion that it may sell or otherwise dispose of such Inventory without (i) the consent of each applicable licensor, (ii) infringing the rights of such licensor, (iii) violating any contract with such licensor, or (iv) incurring any liability with respect to payment of royalties other than royalties incurred pursuant to sale of such Inventory under the current licensing agreement;
- (o) which is not reflected in a current perpetual inventory report of the applicable Loan Party;
- (p) for which reclamation rights have been asserted by the seller; or
- (q) which the Administrative Agent otherwise determines is unacceptable in its Permitted Discretion.

"Environmental Laws" means all laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions, notices or binding agreements issued, promulgated or entered into by any Governmental Authority, relating in any way to the environment, preservation or reclamation of natural resources, the management, release or threatened release of any Hazardous Material or to health and safety matters.

"Environmental Liability" means any liability, contingent or otherwise (including any liability for damages, costs of environmental investigation or remediation, injunctive or equitable relief, fines, penalties or indemnities), of Holdings or any Subsidiary directly or indirectly resulting from or based upon (a) a violation or alleged violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the Release, presence or threatened Release of any Hazardous Materials into the environment or within any facility, building or fixture or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

“Equity Interests” means shares of capital stock, partnership interests, membership interests in a limited liability company, beneficial interests in a trust or other equity ownership interests in a Person, and any warrants, options or other rights entitling the holder thereof to purchase or acquire any such equity interest.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time.

“ERISA Affiliate” means any trade or business (whether or not incorporated) that, together with the Borrower, is treated as a single employer under Section 414(b) or (c) of the Code or,

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solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

“ERISA Event” means (a) any “reportable event”, as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (other than an event for which the 30 day notice period is waived); (b) the existence with respect to any Plan of an “accumulated funding deficiency” (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived; (c) the filing pursuant to Section 412(d) of the Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan; (d) the incurrence by the Borrower or any of its ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of any Plan; (e) the receipt by the Borrower or any ERISA Affiliate from the PBGC or a plan administrator of any notice relating to an intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan; (f) the incurrence by the Borrower or any of its ERISA Affiliates of any liability with respect to the withdrawal or partial withdrawal of the Borrower or any of its ERISA Affiliates from any Plan or Multiemployer Plan; or (g) the receipt by the Borrower or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Plan from the Borrower or any ERISA Affiliate of any notice, concerning the imposition upon the Borrower or any of its ERISA Affiliates of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA.

“Eurodollar”, when used in reference to any Loan or Borrowing, means that such Loan, or the Loans comprising such Borrowing, bears interest at a rate determined by reference to the Adjusted LIBO Rate.

“Event of Default” has the meaning assigned to such term in Article VII.

“Excluded Assets” means (i) any “Principal Property” as defined in the Indenture dated as of September 27, 2005 by and among Holdings and certain Subsidiaries and U.S. Bank National Association as in effect on the Effective Date and without giving effect to any amendments or modifications thereto after the Effective Date, (ii) any Real Property owned by Holdings or any Subsidiary and (iii) only to the extent that the IP Collateral Trigger Date has not occurred, intellectual property owned by Holdings or any Subsidiary.

“Excluded Subsidiary” means, at any time, any Subsidiary of the Borrower identified on Schedule 3.15 as an “Excluded Subsidiary” and that has not ceased to be an “Excluded Subsidiary” as provided below; provided that such Subsidiary does not own assets or properties that, together with the assets and properties owned by all other Subsidiaries that are treated as “Excluded Subsidiaries”, have a book value, in the aggregate, in excess of \$10,000,000, (b) did not, during the period of four consecutive fiscal quarters of the Borrower ended on the most recent date for which quarterly or annual financial statements of Holdings are available, have revenues that, together with the revenues of all other Subsidiaries that are treated as “Excluded Subsidiaries”, accounted for more than 5% of the consolidated revenues of the Borrower and its Subsidiaries during such period, and (c) does not have any Indebtedness or any other material liabilities. At any time the Borrower may, and shall if one or more Excluded Subsidiaries fail to satisfy one or more of the conditions described in clauses (a) through (c) above, notify the Administrative Agent that one or more Excluded Subsidiaries shall cease to constitute an “Excluded Subsidiary”, whereupon such Subsidiary or Subsidiaries shall cease to constitute an “Excluded Subsidiary” for all purposes hereof. The Borrower may not designate any Subsidiary that is not an Excluded Subsidiary as an Excluded Subsidiary.

“Excluded Taxes” means, with respect to the Administrative Agent, any Lender, the Issuing Bank or any other recipient of any payment to be made by or on account of any obligation of the

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Borrower hereunder, (a) income or franchise taxes imposed on (or measured by) its net income by the United States of America, or by the jurisdiction under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located, (b) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction in which the Borrower is located and (c) in the case of a Foreign Lender (other than an assignee pursuant to a request by the Borrower under Section 2.19(b)), any withholding tax that is imposed on amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party to this Agreement (or designates a new lending office) or is attributable to such Foreign Lender’s failure to comply with Section 2.17(f), except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts from the Borrower with respect to such withholding tax pursuant to Section 2.17(a).

“Existing Credit Agreement” means the Credit Agreement, dated as of July 21, 2005, by and among the Borrower, Holdings, the lenders party thereto from time to time and JPMorgan Chase Bank, N.A., as administrative agent thereunder, as amended, restated, supplemented or otherwise modified prior to the date hereof.

“Existing Letters of Credit” is defined in Section 2.06(a).

“Federal Funds Effective Rate” means, for any day, the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

“Financial Officer” means the chief financial officer, principal accounting officer, treasurer or controller of the Borrower or the assistant treasurer or controller for purposes of giving notices.

“First Tier Foreign Subsidiary” means each Foreign Subsidiary with respect to which any one or more of the Loan Parties directly owns or Controls more than 50% of such Foreign Subsidiary’s issued and outstanding Equity Interests.

“Fixed Charges” means, with reference to any period, without duplication, cash Interest Expense, plus cash Rentals, plus prepayments and scheduled principal payments on Indebtedness made during such period, plus expense for taxes paid in cash, plus dividends or distributions paid in cash, plus Capital Lease Obligation payments, plus cash contributions to any Plan, all calculated for Holdings and its Subsidiaries on a consolidated basis.

“Fixed Charge Coverage Ratio” means, for any period, the ratio of (a) EBITDA minus the unfinanced portion of Capital Expenditures to (b) Fixed Charges, all calculated for the Borrower and its Subsidiaries on a consolidated basis in accordance with GAAP for such period.

“Foreign Lender” means any Lender that is organized under the laws of a jurisdiction other than that in which the Borrower is located. For purposes of this

definition, the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

“Foreign Subsidiary” means any Subsidiary which is not a Domestic Subsidiary.

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“Funding Account” has the meaning assigned to such term in Section 4.01(h).

“GAAP” means generally accepted accounting principles in the United States of America.

“Governmental Authority” means the government of the United States of America, any other nation or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

“Guarantee” of or by any Person (the “guarantor”) means any obligation, contingent or otherwise, of the guarantor guaranteeing or having the economic effect of guaranteeing (x) any Indebtedness of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, and (y) any obligation of the guarantor, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) Indebtedness of the primary obligor or to purchase (or to advance or supply funds for the purchase of) any security for the payment thereof, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of any Indebtedness of the primary obligor of the payment thereof, (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay Indebtedness of the primary obligor or (d) as an account party in respect of any letter of credit or letter of guaranty issued to support Indebtedness; provided, that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

“Guaranteed Obligations” has the meaning assigned to such term in Section 10.01.

“Hazardous Materials” means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

“Holdings” means Ethan Allen Interiors Inc., a Delaware corporation.

“Indebtedness” of any Person means, without duplication, (a) all obligations of such Person for borrowed money or with respect to deposits or advances of any kind, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person upon which interest charges are customarily paid (other than accounts payable incurred in the ordinary course of business), (d) all obligations of such Person under conditional sale or other title retention agreements relating to property acquired by such Person, (e) all obligations of such Person in respect of the deferred purchase price of property or services (excluding current accounts payable incurred in the ordinary course of business), (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such Person, whether or not the Indebtedness secured thereby has been assumed, (g) all Guarantees by such Person of Indebtedness of others, (h) all Capital Lease Obligations of such Person, (i) all obligations, contingent or otherwise, of such Person as an account party in respect of letters of credit and letters of guaranty, (j) all obligations, contingent or otherwise, of such Person in respect of bankers’ acceptances, (k) obligations under any liquidated earn-out and (l) any other Off-Balance Sheet Liability. The Indebtedness of any Person shall include the Indebtedness of any other entity (including any partnership in which such Person is a general partner) to the extent such Person is liable therefor as a result of such Person’s ownership interest in or other relationship with such entity, except to the extent the terms of such Indebtedness provide that such Person is not liable therefor.

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“Indemnified Taxes” means Taxes other than Excluded Taxes.

“Information Memorandum” means the Confidential Information Memorandum dated April 2009 relating to the Borrower and the Transactions.

“Interest Election Request” means a request by the Borrower to convert or continue a Revolving Borrowing in accordance with Section 2.08.

“Interest Expense” means, with reference to any period, total interest expense (including, but without duplication, that attributable to Capital Lease Obligations) of the Borrower and its Subsidiaries for such period with respect to all outstanding Indebtedness of the Borrower and its Subsidiaries (including all commissions, discounts and other fees and charges owed with respect to letters of credit and bankers’ acceptance financing and net costs under Swap Agreements in respect of interest rates to the extent such net costs are allocable to such period in accordance with GAAP), calculated on a consolidated basis for the Borrower and its Subsidiaries for such period in accordance with GAAP.

“Interest Payment Date” means (a) with respect to any ABR Loan (other than a Swingline Loan), the first day of each calendar quarter and the Maturity Date, and (b) with respect to any Eurodollar Loan, the last day of the Interest Period applicable to the Borrowing of which such Loan is a part and, in the case of a Eurodollar Borrowing with an Interest Period of more than three months’ duration, each day prior to the last day of such Interest Period that occurs at intervals of three months’ duration after the first day of such Interest Period and the Maturity Date.

“Interest Period” means with respect to any Eurodollar Borrowing, the period commencing on the date of such Borrowing and ending on the numerically corresponding day in the calendar month that is one, two, three or six (or, with the consent of each Lender, nine or twelve) months thereafter, as the Borrower may elect; provided, that (i) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless, in the case of a Eurodollar Borrowing only, such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day and (ii) any Interest Period pertaining to a Eurodollar Borrowing that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period. For purposes hereof, the date of a Borrowing initially shall be the date on which such Borrowing is made and, in the case of a Revolving Borrowing, thereafter shall be the effective date of the most recent conversion or continuation of such Borrowing.

“Inventory” has the meaning assigned to such term in the Security Agreement.

“IP Collateral Trigger Date” means the earliest date after the Effective Date on which Availability is less than \$17,500,000 and the Administrative Agent has notified the Borrower in writing of such date.

“Issuing Bank” means Chase, in its capacity as the issuer of Letters of Credit hereunder, and its successors in such capacity as provided in Section 2.06(i). The Issuing Bank may, in its discretion, arrange for one or more Letters of Credit to be issued by Affiliates of the Issuing Bank, in which case the term “Issuing Bank” shall include any such Affiliate with respect to Letters of Credit issued by such Affiliate.

“Joinder Agreement” has the meaning assigned to such term in Section 5.11.

“Landlord Lien State” means any jurisdiction the laws of which provide for the liens in favor of the landlords of such jurisdiction to have priority over the liens of the Administrative Agent on Inventory; provided that if the laws of any such jurisdiction are changed after the Effective Date so as to provide for the liens in favor of the Administrative Agent on Inventory to have priority over the liens in favor of the landlords of such jurisdiction, then such jurisdiction shall no longer be a “Landlord Lien State” as such term is used herein.

“LC Collateral Account” has the meaning assigned to such term in Section 2.06(j).

“LC Disbursement” means a payment made by the Issuing Bank pursuant to a Letter of Credit.

“LC Exposure” means, at any time, the sum of Commercial LC Exposure and Standby LC Exposure. The LC Exposure of any Lender at any time shall be its Applicable Percentage of the total LC Exposure at such time.

“Lenders” means the Persons listed on Schedule 2.01 and any other Person that shall have become a party hereto pursuant to an Assignment and Assumption, other than any such Person that ceases to be a party hereto pursuant to an Assignment and Assumption. Unless the context otherwise requires, the term “Lenders” includes the Swingline Lender.

“Letter of Credit” means any letter of credit issued pursuant to this Agreement.

“LIBO Rate” means, with respect to any Eurodollar Borrowing for any Interest Period, the rate appearing on Reuters Screen LIBOR01 Page (or on any successor or substitute page of such service, or any successor to or substitute for such service, providing rate quotations comparable to those currently provided on such page of such service, as determined by the Administrative Agent from time to time for purposes of providing quotations of interest rates applicable to dollar deposits in the London interbank market) at approximately 11:00 a.m., London time, two (2) Business Days prior to the commencement of such Interest Period, as the rate for dollar deposits with a maturity comparable to such Interest Period. In the event that such rate is not available at such time for any reason, then the “LIBO Rate” with respect to such Eurodollar Borrowing for such Interest Period shall be the rate at which dollar deposits of \$5,000,000 and for a maturity comparable to such Interest Period are offered by the principal London office of the Administrative Agent in immediately available funds in the London interbank market at approximately 11:00 a.m., London time, two (2) Business Days prior to the commencement of such Interest Period.

“Lien” means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

“Loan Documents” means this Agreement, any promissory notes issued pursuant to Section 2.10(f) of this Agreement, any Letter of Credit applications, the Collateral Documents and all other agreements, instruments, documents and certificates identified in Section 4.01 executed and delivered to, or in favor of, the Administrative Agent, any Lenders or any Secured Parties and including all other pledges, powers of attorney, consents, assignments, contracts, notices, letter of credit agreements and all other written matter whether heretofore, now or hereafter executed by or on behalf of any Loan Party, or any employee of any Loan Party, and delivered to the Administrative Agent, any Lender or any

Secured Party in connection with this Agreement or the transactions contemplated thereby. Any reference in this Agreement or any other Loan Document to a Loan Document shall include all appendices, exhibits or schedules thereto, and all amendments, restatements, supplements or other modifications thereto, and shall refer to the Agreement or such Loan Document as the same may be in effect at any and all times such reference becomes operative.

“Loan Guarantor” means each Loan Party (other than the Borrower).

“Loan Guaranty” means Article X of this Agreement.

“Loan Parties” means Holdings, the Borrower, the Borrower’s Material Domestic Subsidiaries and any other Person who becomes a party to this Agreement pursuant to a Joinder Agreement and their successors and assigns.

“Loans” means the loans and advances made by the Lenders pursuant to this Agreement, including Swingline Loans, Overadvances and Protective Advances.

“Material Adverse Effect” means a material adverse effect on (a) the business, assets, operations, condition (financial or otherwise) or prospects of Holdings, or the Borrower, or the Borrower and the Subsidiaries taken as a whole, (b) the ability of any Loan Party to perform any of its obligations under the Loan Documents to which it is a party, (c) the Collateral, or the Administrative Agent’s Liens (on behalf of itself and the Secured Parties) on the Collateral or the priority of such Liens, or (d) the rights of or benefits available to the Administrative Agent, the Issuing Bank, the Lenders or the Secured Parties thereunder.

“Material Domestic Subsidiaries” means each Domestic Subsidiary which, as of the most recent fiscal quarter of Holdings, for the period of four consecutive fiscal quarters then ended, for which financial statements have been delivered pursuant to Section 5.01, contributed greater than ten percent (10%) of Total Assets as of such date; provided that, if at any time the aggregate amount of the Total Assets of all Subsidiaries that are not Material Domestic Subsidiaries exceeds ten percent (10%) of Total Assets as of the end of any such fiscal quarter, Holdings (or, in the event Holdings has failed to do so within ten (10) days, the Administrative Agent) shall designate sufficient Subsidiaries as “Material Domestic Subsidiaries” to eliminate such excess, and such designated Subsidiaries shall for all purposes of this Agreement constitute Material Domestic Subsidiaries.

“Material Foreign Subsidiaries” means each Foreign Subsidiary which, as of the most recent fiscal quarter of Holdings, for the period of four consecutive fiscal quarters then ended, for which financial statements have been delivered pursuant to Section 5.01, contributed greater than ten percent (10%) of Total Assets as of such date; provided that, if at any time the aggregate amount of the Total Assets of all Subsidiaries that are not Material Foreign Subsidiaries exceeds ten percent (10%) of Total Assets as of the end of any such fiscal quarter, Holdings (or, in the event Holdings has failed to do so within ten (10) days, the Administrative Agent) shall designate sufficient Subsidiaries as “Material Foreign Subsidiaries” to eliminate such excess, and such designated Subsidiaries shall for all purposes of this Agreement constitute Material Foreign Subsidiaries.

“Material Indebtedness” means Indebtedness (other than the Loans and Letters of Credit), or obligations in respect of one or more Swap Agreements, of any one or more of the Borrower and its Subsidiaries in an aggregate principal amount exceeding \$10,000,000. For purposes of determining Material Indebtedness, the “obligations” of the Borrower or any Subsidiary in respect of any Swap Agreement at any time shall be the maximum aggregate amount (giving effect to any netting agreements)

that the Borrower or such Subsidiary would be required to pay if such Swap Agreement were terminated at such time.

“Maturity Date” means May 29, 2012 or any earlier date on which the Commitments are reduced to zero or otherwise terminated pursuant to the terms hereof.

“Maximum Liability” has the meaning assigned to such term in Section 10.10.

“Monthly Reporting Trigger” shall be in effect at any time that (i) an Event of Default is continuing, (ii) any Loans are outstanding, (iii) LC Exposure is equal to or in excess of \$13,500,000 or (iv) average Availability for the most recently ended calendar month is equal to or less than \$25,000,000.

“Moody’s” means Moody’s Investors Service, Inc.

“Multiemployer Plan” means a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

“Negative Covenant Permission Trigger” means (a) no Default or Event of Default has occurred and is continuing prior to making such acquisition (in the case of a Permitted Acquisition), Restricted Payment (in the case of Section 6.08(a)) or payment (in the case of Section 6.08(b)) or would arise after giving effect (including pro forma effect) thereto, (b) Availability equals or exceeds an amount equal to the greater of (i) 25% of the Aggregate Commitment at such time and (ii) \$12,000,000, prior thereto as well as after giving effect (including pro forma effect) thereto and (c) Holdings and the Borrower are in compliance, on a pro forma basis after giving effect thereto (excluding synergies or cost savings in the case of an acquisition), with the covenant contained in Section 6.12 recomputed as of the last day of the most recently ended fiscal quarter of Holdings for which financial statements are available

“Net Income” means, for any period, the consolidated net income (or loss) of Holdings and its Subsidiaries, determined on a consolidated basis in accordance with GAAP; provided that there shall be excluded (a) the income (or deficit) of any Person accrued prior to the date it becomes a Subsidiary or is merged into or consolidated with Holdings or any of its Subsidiaries, (b) the income (or deficit) of any Person (other than a Subsidiary) in which Holdings or any of its Subsidiaries has an ownership interest, except to the extent that any such income is actually received by Holdings or such Subsidiary in the form of dividends or similar distributions and (c) the undistributed earnings of any Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Subsidiary is not at the time permitted by the terms of any contractual obligation (other than under any Loan Document) or Requirement of Law applicable to such Subsidiary. Any Requirement of Law that a dividend be declared by the board of directors or similar governing body of a Subsidiary shall not be deemed a restriction described in clause (c) above.

“Net Orderly Liquidation Value” means, with respect to Inventory of any Person, the orderly liquidation value thereof as determined in a manner acceptable to the Administrative Agent in its Permitted Discretion by an appraiser acceptable to the Administrative Agent, net of all costs of liquidation thereof.

“Net Proceeds” means, with respect to any event, (a) the cash proceeds received in respect of such event including (i) any cash received in respect of any non-cash proceeds (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or purchase price adjustment receivable or otherwise, but excluding any interest payments), but only as and when received, (ii) in the case of a casualty, insurance proceeds and (iii) in the case of a condemnation or similar event, condemnation awards and similar payments, net of (b) the sum of (i) all

reasonable fees and out-of-pocket expenses paid to third parties (other than Affiliates) in connection with such event, (ii) in the case of a sale, transfer or other disposition of an asset (including pursuant to a sale and leaseback transaction or a casualty or a condemnation or similar proceeding), the amount of all payments required to be made as a result of such event to repay Indebtedness (other than Loans) secured by such asset or otherwise subject to mandatory prepayment as a result of such event and (iii) the amount of all taxes paid (or reasonably estimated to be payable) and the amount of any reserves established to fund contingent liabilities reasonably estimated to be payable, in each case during the year that such event occurred or the next succeeding year and that are directly attributable to such event (as determined reasonably and in good faith by a Financial Officer).

“Non-Consenting Lender” has the meaning assigned to such term in Section 9.02(d).

“Non-Paying Guarantor” has the meaning assigned to such term in Section 10.11.

“Obligated Party” has the meaning assigned to such term in Section 10.02.

“Obligations” means all unpaid principal of and accrued and unpaid interest on the Loans, all LC Exposure, all accrued and unpaid fees and all expenses, reimbursements, indemnities and other obligations and indebtedness (including interest accruing during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding), obligations and liabilities of the Loan Parties to the Lenders or to any of the Lenders, the Administrative Agent, the Issuing Bank or any indemnified party, individually or collectively, existing on the Effective Date or arising thereafter, direct or indirect, joint or several, absolute or contingent, matured or unmatured, liquidated or unliquidated, secured or unsecured, arising by contract, operation of law or otherwise, arising or incurred under this Agreement or any of the other Loan Documents or in respect of any of the Loans made or reimbursement or other obligations incurred or any of the Letters of Credit or other instruments at any time evidencing any thereof.

“Off-Balance Sheet Liability” of a Person means (a) any repurchase obligation or liability of such Person with respect to accounts or notes receivable sold by such Person, (b) any indebtedness, liability or obligation under any so-called “synthetic lease” transaction entered into by such Person, or (c) any indebtedness, liability or obligation arising with respect to any other transaction which is the functional equivalent of or takes the place of borrowing but which does not constitute a liability on the balance sheets of such Person (other than operating leases).

“Other Taxes” means any and all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document other than Excluded Taxes.

“Overadvance” has the meaning assigned to such term in Section 2.05(b).

“Participant” has the meaning set forth in Section 9.04.

“Paying Guarantor” has the meaning assigned to such term in Section 10.11.

“PBGC” means the Pension Benefit Guaranty Corporation referred to and defined in ERISA and any successor entity performing similar functions.

“Permitted Acquisition” means any acquisition (whether by purchase, lease (other than a customary real estate lease), merger, consolidation or otherwise) or series of related acquisitions by

Holdings, the Borrower or any Subsidiary of (i) all or substantially all the assets of or (ii) all or substantially all the Equity Interests in, a Person or division or line of business of a Person, if, at the time of and immediately after giving effect thereto, (a) no Default has occurred and is continuing or would arise after giving effect (including pro forma effect) thereto, (b) such Person or division or line of business is engaged in the same or a similar line of business as Holdings and its Subsidiaries or business reasonably related thereto, (c) all actions required to be taken with respect to such acquired or newly formed Subsidiary under Section 5.15 shall have been taken, (d) the Negative Covenant Permission Trigger is satisfied and (e) in the case of an acquisition or merger involving Holdings, the Borrower or a Subsidiary, Holdings, the Borrower or such Subsidiary is the surviving entity of such merger and/or consolidation.

“Permitted Discretion” means a determination made in good faith and in the exercise of reasonable (from the perspective of a secured asset-based lender) business judgment.

“Permitted Encumbrances” means:

- (a) Liens imposed by law for taxes that are not yet due or are being contested in compliance with Section 5.04;
- (b) carriers’, warehousemen’s, mechanics’, materialmen’s, repairmen’s and other like Liens imposed by law, arising in the ordinary course of business and securing obligations that are not overdue by more than thirty (30) days or are being contested in compliance with Section 5.04;
- (c) pledges and deposits made in the ordinary course of business in compliance with workers’ compensation, unemployment insurance and other social security laws or regulations;
- (d) deposits to secure the performance of bids, trade contracts, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature, in each case in the ordinary course of business;
- (e) judgment liens in respect of judgments that do not constitute an Event of Default under clause (k) of Article VII;
- (f) easements, zoning restrictions, rights-of-way and similar encumbrances on real property imposed by law or arising in the ordinary course of business that do not secure any monetary obligations and do not materially detract from the value of the affected property or interfere with the ordinary conduct of business of Holdings or any Subsidiary; and
- (g) liens arising by virtue of any statutory, common law or contractual provisions relating to bankers’ liens, right of set-off or similar rights and remedies;

provided that the term “Permitted Encumbrances” shall not include any Lien securing Indebtedness.

“Permitted Investments” means:

- (a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States of America), in each case maturing within one year from the date of acquisition thereof;

- (b) investments in commercial paper maturing within 270 days from the date of acquisition thereof and having, at such date of acquisition, the highest credit rating obtainable from S&P or from Moody’s;
- (c) investments in certificates of deposit, banker’s acceptances and time deposits maturing within 180 days from the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, any domestic office of any commercial bank organized under the laws of the United States of America or any State thereof which has a combined capital and surplus and undivided profits of not less than \$500,000,000;
- (d) fully collateralized repurchase agreements with a term of not more than 30 days for securities described in clause (a) above and entered into with a financial institution satisfying the criteria described in clause (c) above;
- (e) money market funds that (i) comply with the criteria set forth in Securities and Exchange Commission Rule 2a-7 under the Investment Company Act of 1940, (ii) are rated AAA by S&P and Aaa by Moody’s and (iii) have portfolio assets of at least \$5,000,000,000; and
- (f) other investments made in accordance with Holdings’ investment policy as in effect on the Effective Date and without giving effect to any amendments, modifications or supplements thereto unless the same are approved by the Administrative Agent in its Permitted Discretion.

“Person” means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

“Plan” means any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA, and in respect of which the Borrower or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an “employer” as defined in Section 3(5) of ERISA.

“Pledge Subsidiary” means (i) each Domestic Subsidiary and (ii) each First Tier Foreign Subsidiary which is a Material Foreign Subsidiary.

“Prepayment Event” means:

- (a) any sale, transfer or other disposition (excluding a sale, transfer or disposition of Real Property pursuant to a transaction permitted by Sections 6.01(n) and 6.06) of any Collateral, other than dispositions described in Section 6.05(a); or
- (b) any casualty or other insured damage to, or any taking under power of eminent domain or by condemnation or similar proceeding of, any property or asset of any Loan Party with a fair value immediately prior to such event equal to or greater than \$5,000,000; or



(c) the issuance by Holdings or the Borrower of any Equity Interests, or the receipt by Holdings or the Borrower of any capital contribution, other than any issuance by the Borrower of common Equity Interests to, or receipt of any such capital contribution from, Holdings and other than in connection with employee and director compensation, incentive and benefit plans and other than in connection with acquisitions or in payment of or exchange for debt; or

(d) the incurrence by any Loan Party of any Indebtedness, other than Indebtedness permitted under Section 6.01 or permitted by the Required Lenders pursuant to Section 9.02.

“Prime Rate” means the rate of interest per annum publicly announced from time to time by Chase as its prime rate at its offices at 270 Park Avenue in New York City; each change in the Prime Rate shall be effective from and including the date such change is publicly announced as being effective.

“Processor Control Agreement” means, with respect to any Credit Card Processor providing credit card processing services for or on behalf of any Loan Party, an agreement in form and substance reasonably satisfactory to the Administrative Agent in its Permitted Discretion, executed and delivered by the applicable Loan Party, such Credit Card Processor and the Administrative Agent, pursuant to which such Credit Card Processor shall agree, among other things, to follow instructions originated by the Administrative Agent regarding amounts payable by such Credit Card Processor to such Loan Party pursuant to the applicable credit card processing agreement without the further consent of such Loan Party under circumstances specified therein, as such agreement may be amended, supplemented or otherwise modified from time to time.

“Projections” has the meaning assigned to such term in Section 5.01(f).

“Protective Advance” has the meaning assigned to such term in Section 2.04.

“Real Property” means real property and all related fixtures, cooling, heating and other building systems located thereon and all improvements thereto (including any parking lot located thereon).

“Register” has the meaning set forth in Section 9.04.

“Related Parties” means, with respect to any specified Person, such Person’s Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person’s Affiliates.

“Release” means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, disposing, depositing, dispersing, emanating or migrating of any Hazardous Material in, into, onto or through the environment.

“Rentals” means, with reference to any period, the aggregate fixed amounts payable in cash by Holdings and its Subsidiaries under any operating leases, calculated on a consolidated basis for Holdings and its Subsidiaries for such period in accordance with GAAP.

“Rent Reserve” with respect to any store, warehouse distribution center, regional distribution center or depot where any Inventory subject to Liens arising by operation of law is located, a reserve equal to two (2) months’ rent at such store, warehouse distribution center, regional distribution center or depot.

“Report” means reports prepared by the Administrative Agent or another Person showing the results of appraisals, field examinations or audits pertaining to the Loan Parties’ assets from information furnished by or on behalf of the Borrower, after the Administrative Agent has exercised its rights of inspection pursuant to this Agreement, which Reports may be distributed to the Lenders by the Administrative Agent.

“Required Lenders” means, at any time, Lenders (but at least two (2) such Lenders during such time when there is more than one (1) Lender but no more than three (3) Lenders) having Revolving Exposures and unused Commitments representing more than 50% of the sum of the total Revolving Exposures and unused Commitments at such time, except as provided in Section 2.20(b).

“Requirement of Law” means, as to any Person, the Certificate of Incorporation and By Laws or other organizational or governing documents of such Person, and any law, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

“Reserves” means any and all reserves which the Administrative Agent deems necessary, in its Permitted Discretion, to maintain (including, without limitation, reserves for accrued and unpaid interest on the Secured Obligations, Banking Services Reserves, Rent Reserves, reserves for rent at locations leased by any Loan Party and for consignee’s, warehousemen’s and bailee’s charges, reserves for dilution of Accounts and/or Credit Card Account Receivables, reserves for Inventory shrinkage, reserves for customs charges and shipping charges related to any Inventory in transit, reserves for Swap Obligations, reserves for contingent liabilities of any Loan Party, reserves for uninsured losses of any Loan Party, reserves for uninsured, underinsured, unindemnified or underindemnified liabilities or potential liabilities with respect to any litigation and reserves for taxes, fees, assessments, and other governmental charges) without duplication with respect to the Collateral or any Loan Party.

“Restricted Payment” means any dividend or other distribution (whether in cash, securities or other property) with respect to any Equity Interests in Holdings, the Borrower or any Subsidiary, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such Equity Interests in Holdings or the Borrower or any Subsidiary or any option, warrant or other right to acquire any such Equity Interests in Holdings or the Borrower or any Subsidiary.

“Revolving Exposure” means, with respect to any Lender at any time, the sum of (a) the outstanding principal amount of such Lender’s Revolving Loans and its LC Exposure, plus (b) an amount equal to its Applicable Percentage of the aggregate principal amount of Swingline Loans at such time, plus (c) an amount equal to its Applicable Percentage of the aggregate principal amount of Overadvances outstanding at such time.

“Revolving Loan” means a Loan made pursuant to Section 2.01(a).

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw Hill Companies, Inc.

“Secured Obligations” means all Obligations, together with all (i) Banking Services Obligations and (ii) Swap Obligations owing to one or more Secured Parties or their respective Affiliates; provided that at or prior to the time that any transaction relating to such Swap Obligation is executed, the Secured Party party thereto (other than Chase) shall have delivered written notice to the Administrative Agent that such a transaction has been entered into and that it constitutes a Secured Obligation entitled to the benefits of the Collateral Documents.

“Secured Parties” means the holders of the Secured Obligations from time to time and shall include (i) each Lender and the Issuing Bank in respect of its

arising under or in connection with this Agreement or any other Loan Document, (iii) each Lender and Affiliate of such Lender in respect of Swap Obligations and Banking Services Obligations owed to such Person by Holdings, the Borrower or any Subsidiary, (iv) each indemnified party under Section 9.03 in respect of the obligations and liabilities of Holdings, the Borrower or any Subsidiary to such Person hereunder and under the other Loan Documents, and (v) their respective successors and (in the case of a Lender, permitted) transferees and assigns.

“Security Agreement” means the Pledge and Security Agreement (including any and all supplements thereto), dated as of the date hereof, between the Loan Parties and the Administrative Agent, for the benefit of the Administrative Agent and the Secured Parties, and any other pledge or security agreement entered into, after the date of this Agreement by any other Loan Party (as required by this Agreement or any other Loan Document), or any other Person, as the same may be amended, restated or otherwise modified from time to time.

“Settlement” has the meaning assigned to such term in Section 2.05(d).

“Settlement Date” has the meaning assigned to such term in Section 2.05(d).

“Standby LC Exposure” means, at any time, the sum of (a) the aggregate undrawn amount of all outstanding standby Letters of Credit at such time plus (b) the aggregate amount of all LC Disbursements relating to standby Letters of Credit that have not yet been reimbursed by or on behalf of the Borrower at such time. The Standby LC Exposure of any Lender at any time shall be its Applicable Percentage of the total Standby LC Exposure at such time.

“Statutory Reserve Rate” means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board to which the Administrative Agent is subject with respect to the Adjusted LIBO Rate, for eurocurrency funding (currently referred to as “Eurocurrency Liabilities” in Regulation D of the Board). Such reserve percentages shall include those imposed pursuant to such Regulation D of the Board. Eurodollar Loans shall be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under such Regulation D of the Board or any comparable regulation. The Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

“Subordinated Indebtedness” of a Person means any Indebtedness of such Person the payment of which is subordinated to payment of the Secured Obligations to the written satisfaction of the Administrative Agent in its Permitted Discretion.

“subsidiary” means, with respect to any Person (the “parent”) at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the parent in the parent’s consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date, as well as any other corporation, limited liability company, partnership, association or other entity (a) of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power or, in the case of a partnership, more than 50% of the general partnership interests are, as of such date, owned, Controlled or held, or (b) that is, as of such date, otherwise Controlled, by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent.

“Subsidiary” means any direct or indirect subsidiary of Holdings, the Borrower or a Loan Party, as applicable.

“Swap Agreement” means any agreement with respect to any swap, forward, future or derivative transaction or option or similar agreement involving, or settled by reference to, one or more rates, currencies, commodities, equity or debt instruments or securities, or economic, financial or pricing indices or measures of economic, financial or pricing risk or value or any similar transaction or any combination of these transactions; provided that no phantom stock or similar plan providing for payments only on account of services provided by current or former directors, officers, employees or consultants of Holdings or the Subsidiaries shall be a Swap Agreement.

“Swap Obligations” of a Person means any and all obligations of such Person, whether absolute or contingent and howsoever and whensoever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefor), under (a) any and all Swap Agreements permitted hereunder with a Lender or an Affiliate of a Lender, and (b) any and all cancellations, buy backs, reversals, terminations or assignments of any such Swap Agreement transaction.

“Swingline Exposure” means, at any time, the aggregate principal amount of all outstanding Swingline Loans at such time. The Swingline Exposure of any Lender at any time shall be its Applicable Percentage of the total Swingline Exposure at such time.

“Swingline Lender” means JPMorgan Chase Bank, N.A., in its capacity as lender of Swingline Loans hereunder.

“Swingline Loan” has the meaning assigned to such term in Section 2.05(a).

“Syndication Agent” means JPMorgan Chase Bank, N.A. in its capacity as syndication agent for the credit facility evidenced by this Agreement.

“Taxes” means any and all present or future taxes, levies, imposts, duties, deductions, charges or withholdings imposed by any Governmental Authority.

“Total Assets” means, as of the date of any determination thereof, total assets of Holdings and its Subsidiaries calculated in accordance with GAAP on a consolidated basis as of such date.

“Total Indebtedness” means, at any date, the aggregate principal amount of all Indebtedness of Holdings and its Subsidiaries at such date, determined on a consolidated basis in accordance with GAAP.

“Transactions” means the execution, delivery and performance by the Loan Parties of this Agreement and the other Loan Documents, the borrowing of Loans and other credit extensions, the use of the proceeds thereof and the issuance of Letters of Credit hereunder.

“Type”, when used in reference to any Loan or Borrowing, refers to whether the rate of interest on such Loan, or on the Loans comprising such Borrowing, is determined by reference to the Adjusted LIBO Rate or the Alternate Base Rate.

“UCC” means the Uniform Commercial Code as in effect from time to time in the State of New York or any other state the laws of which are required to be applied in connection with the issue of perfection of security interests.

“Unliquidated Obligations” means, at any time, any Secured Obligations (or portion thereof) that are contingent in nature or unliquidated at such time, including any Secured Obligation that is: (i) an obligation to reimburse a bank for drawings not yet made under a letter of credit issued by it; (ii) any other obligation (including any guarantee) that is contingent in nature at such time; or (iii) an obligation to provide collateral to secure any of the foregoing types of obligations.

“Withdrawal Liability” means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

SECTION 1.02. Classification of Loans and Borrowings. For purposes of this Agreement, Loans may be classified and referred to by Class (e.g., a “Revolving Loan”) or by Type (e.g., a “Eurodollar Loan”) or by Class and Type (e.g., a “Eurodollar Revolving Loan”). Borrowings also may be classified and referred to by Class (e.g., a “Revolving Borrowing”) or by Type (e.g., a “Eurodollar Borrowing”) or by Class and Type (e.g., a “Eurodollar Revolving Borrowing”).

SECTION 1.03. Terms Generally. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include”, “includes” and “including” shall be deemed to be followed by the phrase “without limitation”. The word “will” shall be construed to have the same meaning and effect as the word “shall”. Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, restated, supplemented or otherwise modified (subject to any restrictions on such amendments, restatements, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person’s successors and assigns, (c) the words “herein”, “hereof” and “hereunder”, and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement and (e) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

SECTION 1.04. Accounting Terms; GAAP. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided that, if the Borrower notifies the Administrative Agent that the Borrower requests an amendment to any provision hereof to eliminate the effect of any change occurring after the date hereof in GAAP or in the application thereof on the operation of such provision (or if the Administrative Agent notifies the Borrower that the Required Lenders request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith. Notwithstanding any other provision contained herein, all terms of an accounting or financial nature used herein shall be construed, and all computations of amounts and ratios referred to herein shall be made, without giving effect to any election under Statement of Financial Accounting Standards 159 (or any other Financial Accounting Standard having a similar result or effect) to value any Indebtedness or other liabilities of Holdings, the Borrower or any Subsidiary at “fair value”, as defined therein.

## ARTICLE II

### The Credits

SECTION 2.01. Commitments. Subject to the terms and conditions set forth herein, each Lender agrees to make Revolving Loans to the Borrower in dollars from time to time during the Availability Period in an aggregate principal amount that will not result in (a) such Lender’s Revolving Exposure exceeding such Lender’s Commitment or (b) the total Revolving Exposures exceeding the lesser of (i) the Aggregate Commitment or (ii) the Borrowing Base, subject to the Administrative Agent’s authority, in its sole discretion, to make Protective Advances and Overadvances pursuant to the terms of Section 2.04 and 2.05. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Revolving Loans.

SECTION 2.02. Loans and Borrowings. (a) Each Loan (other than a Swingline Loan) shall be made as part of a Borrowing consisting of Loans of the same Class and Type made by the Lenders ratably in accordance with their respective Commitments of the applicable Class. Any Protective Advance, any Overadvance and any Swingline Loan shall be made in accordance with the procedures set forth in Section 2.04 and 2.05. No failure to fund by a Defaulting Lender shall relieve any other Lender of its funding obligations hereunder in accordance with the terms and conditions hereof.

(b) Subject to Section 2.14, each Revolving Borrowing shall be comprised entirely of ABR Loans or Eurodollar Loans as the Borrower may request in accordance herewith; provided that all Borrowings made on the Effective Date must be made as ABR Borrowings but may be converted into Eurodollar Borrowings in accordance with Section 2.08. Each Swingline Loan shall be an ABR Loan. Each Lender at its option may make any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan; provided that any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement.

(c) At the commencement of each Interest Period for any Eurodollar Revolving Borrowing, such Borrowing shall be in an aggregate amount that is an integral multiple of \$1,000,000 and not less than \$2,000,000. ABR Revolving Borrowings may be in any amount. Borrowings of more than one Type and Class may be outstanding at the same time; provided that there shall not at any time be more than a total of ten (10) Eurodollar Borrowings outstanding.

(d) Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request, or to elect to convert or continue, any Borrowing if the Interest Period requested with respect thereto would end after the Maturity Date.

SECTION 2.03. Requests for Revolving Borrowings. To request a Revolving Borrowing, the Borrower shall notify the Administrative Agent of such request either in writing (delivered by hand or facsimile) in a form approved by the Administrative Agent and signed by the Borrower or by telephone (a) in the case of a Eurodollar Borrowing, not later than 11:00 a.m., New York City time, three (3) Business Days before the date of the proposed Borrowing or (b) in the case of an ABR Borrowing, not later than 1:00 p.m., New York City time, on the date of the proposed Borrowing; provided that any such notice of an ABR Revolving Borrowing to finance the reimbursement of an LC Disbursement as contemplated by Section 2.06(e) may be given not later than 10:00 a.m., New York City time, on the date of the proposed Borrowing. Each such telephonic Borrowing Request shall be irrevocable and shall be confirmed promptly by hand delivery or facsimile to the Administrative Agent of a written Borrowing Request in a form approved by the Administrative Agent and signed by the

- (i) the aggregate amount of the requested Borrowing and a breakdown of the separate wires comprising such Borrowing;
- (ii) the date of such Borrowing, which shall be a Business Day;
- (iii) whether such Borrowing is to be an ABR Borrowing or a Eurodollar Borrowing; and
- (iv) in the case of a Eurodollar Borrowing, the initial Interest Period to be applicable thereto, which shall be a period contemplated by the definition of the term “Interest Period.”

If no election as to the Type of Revolving Borrowing is specified, then the requested Revolving Borrowing shall be an ABR Borrowing. If no Interest Period is specified with respect to any requested Eurodollar Revolving Borrowing, then the Borrower shall be deemed to have selected an Interest Period of one month’s duration. Promptly following receipt of a Borrowing Request in accordance with this Section, the Administrative Agent shall advise each Lender of the details thereof and of the amount of such Lender’s Loan to be made as part of the requested Borrowing.

**SECTION 2.04. Protective Advances.** (a) Subject to the limitations set forth below, the Administrative Agent is authorized by the Borrower and the Lenders, from time to time in the Administrative Agent’s sole discretion (but shall have absolutely no obligation to), to make Loans to the Borrower, on behalf of all Lenders, which the Administrative Agent, in its Permitted Discretion, deems necessary or desirable (i) to preserve or protect the Collateral, or any portion thereof, (ii) to enhance the likelihood of, or maximize the amount of, repayment of the Loans and other Obligations, or (iii) to pay any other amount chargeable to or required to be paid by the Borrower pursuant to the terms of this Agreement, including payments of reimbursable expenses (including costs, fees, and expenses as described in Section 9.03) and other sums payable under the Loan Documents (any of such Loans are herein referred to as “Protective Advances”); provided that, the aggregate amount of Protective Advances outstanding at any time shall not at any time exceed \$5,000,000; provided further that, the aggregate amount of outstanding Protective Advances plus the aggregate Revolving Exposure shall not exceed the Aggregate Commitment. Protective Advances may be made even if the conditions precedent set forth in Section 4.02 have not been satisfied. The Protective Advances shall be secured by the Liens in favor of the Administrative Agent in and to the Collateral and shall constitute Obligations hereunder. All Protective Advances shall be ABR Borrowings. The Administrative Agent’s authorization to make Protective Advances may be revoked at any time by 100% of the Lenders (other than the Lender that is (or whose Affiliate is) the Administrative Agent). Any such revocation must be in writing and shall become effective prospectively upon the Administrative Agent’s receipt thereof. At any time that there is sufficient Availability and the conditions precedent set forth in Section 4.02 have been satisfied, the Administrative Agent may request the Lenders to make a Revolving Loan to repay a Protective Advance. At any other time the Administrative Agent may require the Lenders to fund their risk participations described in Section 2.04(b).

(b) Upon the making of a Protective Advance by the Administrative Agent (whether before or after the occurrence of a Default), each Lender shall be deemed, without further action by any party hereto, to have unconditionally and irrevocably purchased from the Administrative Agent without recourse or warranty, an undivided interest and participation in such Protective Advance in proportion to its Applicable Percentage. From and after the date, if any, on which any Lender is required to fund its participation in any Protective Advance purchased hereunder, the Administrative Agent shall promptly distribute to such Lender, such Lender’s Applicable Percentage of all payments

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of principal and interest and all proceeds of Collateral received by the Administrative Agent in respect of such Protective Advance.

**SECTION 2.05. Swingline Loans and Overadvances.** (a) The Administrative Agent, the Swingline Lender and the Lenders agree that in order to facilitate the administration of this Agreement and the other Loan Documents, promptly after the Borrower requests an ABR Borrowing, the Swingline Lender may elect to have the terms of this Section 2.05(a) apply to such Borrowing Request by advancing, on behalf of the Lenders and in the amount requested, same day funds to the Borrower on the applicable Borrowing date to the Funding Account (each such Loan made solely by the Swingline Lender pursuant to this Section 2.05(a) is referred to in this Agreement as a “Swingline Loan”), with settlement among them as to the Swingline Loans to take place on a periodic basis as set forth in Section 2.05(d). Each Swingline Loan shall be subject to all the terms and conditions applicable to other ABR Loans funded by the Lenders, except that all payments thereon shall be payable to the Swingline Lender solely for its own account. In addition, the Borrower hereby authorizes the Swingline Lender to, and the Swingline Lender shall, subject to the terms and conditions set forth herein (but without any further written notice required), not later than 2:00 p.m., New York City time, on each Business Day, make available to the Borrower by means of a credit to the Funding Account, the proceeds of a Swingline Loan to the extent necessary to pay items to be drawn on any Controlled Disbursement Account that day (as determined based on notice from the Administrative Agent). The aggregate amount of Swingline Loans outstanding at any time shall not exceed \$6,000,000. The Swingline Lender shall not make any Swingline Loan if the requested Swingline Loan exceeds Availability (before giving effect to such Swingline Loan). All Swingline Loans shall be ABR Borrowings.

(b) Any provision of this Agreement to the contrary notwithstanding, at the request of the Borrower, the Administrative Agent may in its sole discretion (but with absolutely no obligation), make Revolving Loans to the Borrower, on behalf of the Lenders, in amounts that exceed Availability (any such excess Revolving Loans are herein referred to collectively as “Overadvances”); provided that, no Overadvance shall result in a Default due to Borrower’s failure to comply with Section 2.01 for so long as such Overadvance remains outstanding in accordance with the terms of this paragraph, but solely with respect to the amount of such Overadvance. In addition, Overadvances may be made even if the condition precedent set forth in Section 4.02(c) has not been satisfied. All Overadvances shall constitute ABR Borrowings. The authority of the Administrative Agent to make Overadvances is limited to an aggregate amount not to exceed \$5,000,000 at any time, no Overadvance may remain outstanding for more than forty-five (45) days and no Overadvance shall cause any Lender’s Revolving Exposure to exceed its Commitment; provided that, the Required Lenders may at any time revoke the Administrative Agent’s authorization to make Overadvances. Any such revocation must be in writing and shall become effective prospectively upon the Administrative Agent’s receipt thereof.

(c) Upon the making of a Swingline Loan or an Overadvance (whether before or after the occurrence of a Default and regardless of whether a Settlement has been requested with respect to such Swingline Loan or Overadvance), each Lender shall be deemed, without further action by any party hereto, to have unconditionally and irrevocably purchased from the Swingline Lender or the Administrative Agent, as the case may be, without recourse or warranty, an undivided interest and participation in such Swingline Loan or Overadvance in proportion to its Applicable Percentage of the Commitment. The Swingline Lender or the Administrative Agent may, at any time, require the Lenders to fund their participations. From and after the date, if any, on which any Lender is required to fund its participation in any Swingline Loan or Overadvance purchased hereunder, the Administrative Agent shall promptly distribute to such Lender, such Lender’s Applicable Percentage of all payments of principal and interest and all proceeds of Collateral received by the Administrative Agent in respect of such Loan.

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(d) The Administrative Agent, on behalf of the Swingline Lender, shall request settlement (a “Settlement”) with the Lenders on at least a weekly basis or on any date that the Administrative Agent elects, by notifying the Lenders of such requested Settlement by facsimile, telephone, or e-mail no later than 1:00 p.m., New York City time, on the date of such requested Settlement (the “Settlement Date”). Each Lender (other than the Swingline Lender, in the case of the Swingline Loans) shall transfer the amount of such Lender’s Applicable Percentage of the outstanding principal amount of the applicable Loan with respect to which Settlement is requested to the Administrative Agent, to such account of the Administrative Agent as the Administrative Agent may designate, not later than 3:00 p.m., New York City time, on such Settlement Date. Settlements may occur during the existence of a Default and whether or not the applicable conditions precedent set forth in Section 4.02 have then been satisfied. Such amounts transferred to the Administrative Agent shall be applied against the amounts of the Swingline Lender’s Swingline Loans and, together with Swingline Lender’s Applicable Percentage of such Swingline Loan, shall constitute Revolving Loans of such Lenders, respectively. If any such amount is not transferred to

the Administrative Agent by any Lender on such Settlement Date, the Swingline Lender shall be entitled to recover such amount on demand from such Lender together with interest thereon as specified in Section 2.07.

**SECTION 2.06. Letters of Credit.** (a) General. Subject to the terms and conditions set forth herein, the Borrower may request the issuance of Letters of Credit for its own account, in a form reasonably acceptable to the Administrative Agent and the Issuing Bank, at any time and from time to time during the Availability Period. In the event of any inconsistency between the terms and conditions of this Agreement and the terms and conditions of any form of letter of credit application or other agreement submitted by the Borrower to, or entered into by the Borrower with, the Issuing Bank relating to any Letter of Credit, the terms and conditions of this Agreement shall control. The letters of credit identified on Schedule 2.06 (the "Existing Letters of Credit") shall be deemed to be "Letters of Credit" issued on the Effective Date for all purposes of the Loan Documents.

(b) Notice of Issuance, Amendment, Renewal, Extension; Certain Conditions. To request the issuance of a Letter of Credit (or the amendment, renewal or extension of an outstanding Letter of Credit), the Borrower shall hand deliver or facsimile (or transmit by electronic communication, if arrangements for doing so have been approved by the Issuing Bank) to the Issuing Bank and the Administrative Agent (reasonably in advance of the requested date of issuance, amendment, renewal or extension) a notice requesting the issuance of a Letter of Credit, or identifying the Letter of Credit to be amended, renewed or extended, and specifying the date of issuance, amendment, renewal or extension (which shall be a Business Day), the date on which such Letter of Credit is to expire (which shall comply with paragraph (c) of this Section), the amount of such Letter of Credit, the name and address of the beneficiary thereof and such other information as shall be necessary to prepare, amend, renew or extend such Letter of Credit. If requested by the Issuing Bank, the Borrower also shall submit a letter of credit application and (in the case of a commercial Letter of Credit) a master agreement for the issuance of commercial Letters of Credit, in each case on the Issuing Bank's standard form in connection with any request for a Letter of Credit. A Letter of Credit shall be issued, amended, renewed or extended only if (and upon issuance, amendment, renewal or extension of each Letter of Credit the Borrower shall be deemed to represent and warrant that), after giving effect to such issuance, amendment, renewal or extension (i) the LC Exposure shall not exceed \$30,000,000, (ii) the Standby LC Exposure shall not exceed \$25,000,000 and (iii) the total Revolving Exposures shall not exceed the lesser of the Aggregate Commitment and the Borrowing Base.

(c) Expiration Date. Each Letter of Credit shall expire at or prior to the close of business on the earlier of (i) the date one year after the date of the issuance of such Letter of Credit (or, in the case of any renewal or extension thereof, one year after such renewal or extension) and (ii) the date that is five (5) Business Days prior to the Maturity Date.

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(d) Participations. By the issuance of a Letter of Credit (or an amendment to a Letter of Credit increasing the amount thereof) and without any further action on the part of the Issuing Bank or the Lenders, the Issuing Bank hereby grants to each Lender, and each Lender hereby acquires from the Issuing Bank, a participation in such Letter of Credit equal to such Lender's Applicable Percentage of the aggregate amount available to be drawn under such Letter of Credit. In consideration and in furtherance of the foregoing, each Lender hereby absolutely and unconditionally agrees to pay to the Administrative Agent, for the account of the Issuing Bank, such Lender's Applicable Percentage of each LC Disbursement made by the Issuing Bank and not reimbursed by the Borrower on the date due as provided in paragraph (e) of this Section, or of any reimbursement payment required to be refunded to the Borrower for any reason. Each Lender acknowledges and agrees that its obligation to acquire participations pursuant to this paragraph in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including any amendment, renewal or extension of any Letter of Credit or the occurrence and continuance of a Default or reduction or termination of the Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

(e) Reimbursement. If the Issuing Bank shall make any LC Disbursement in respect of a Letter of Credit, the Borrower shall reimburse such LC Disbursement by paying to the Administrative Agent an amount equal to such LC Disbursement not later than 12:00 noon, New York City time, on the date that such LC Disbursement is made, if the Borrower shall have received notice of such LC Disbursement prior to 10:00 a.m., New York City time, on such date, or, if such notice has not been received by the Borrower prior to such time on such date, then not later than 12:00 noon, New York City time, on (i) the Business Day that the Borrower receives such notice, if such notice is received prior to 10:00 a.m., New York City time, on the day of receipt, or (ii) the Business Day immediately following the day that the Borrower receives such notice, if such notice is not received prior to such time on the day of receipt; provided that, subject to the conditions to borrowing set forth herein, request in accordance with Section 2.03 or 2.05 that such payment be financed with an ABR Revolving Borrowing or Swingline Loan in an equivalent amount and, to the extent so financed, the Borrower's obligation to make such payment shall be discharged and replaced by the resulting ABR Revolving Borrowing or Swingline Loan. If the Borrower fails to make such payment when due, the Administrative Agent shall notify each Lender of the applicable LC Disbursement, the payment then due from the Borrower in respect thereof and such Lender's Applicable Percentage thereof. Promptly following receipt of such notice, each Lender shall pay to the Administrative Agent its Applicable Percentage of the payment then due from the Borrower, in the same manner as provided in Section 2.07 with respect to Loans made by such Lender (and Section 2.07 shall apply, mutatis mutandis, to the payment obligations of the Lenders), and the Administrative Agent shall promptly pay to the Issuing Bank the amounts so received by it from the Lenders. Promptly following receipt by the Administrative Agent of any payment from the Borrower pursuant to this paragraph, the Administrative Agent shall distribute such payment to the Issuing Bank or, to the extent that Lenders have made payments pursuant to this paragraph to reimburse the Issuing Bank, then to such Lenders and the Issuing Bank as their interests may appear. Any payment made by a Lender pursuant to this paragraph to reimburse the Issuing Bank for any LC Disbursement (other than the funding of ABR Revolving Loans or a Swingline Loan as contemplated above) shall not constitute a Loan and shall not relieve the Borrower of its obligation to reimburse such LC Disbursement.

(f) Obligations Absolute. The Borrower's obligation to reimburse LC Disbursements as provided in paragraph (e) of this Section shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement under any and all circumstances whatsoever and irrespective of (i) any lack of validity or enforceability of any Letter of Credit or this Agreement, or any term or provision therein, (ii) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being

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untrue or inaccurate in any respect, (iii) payment by the Issuing Bank under a Letter of Credit against presentation of a draft or other document that does not comply with the terms of such Letter of Credit, or (iv) any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section, constitute a legal or equitable discharge of, or provide a right of setoff against, the Borrower's obligations hereunder. Neither the Administrative Agent, the Lenders nor the Issuing Bank, nor any of their Related Parties, shall have any liability or responsibility by reason of or in connection with the issuance or transfer of any Letter of Credit or any payment or failure to make any payment thereunder (irrespective of any of the circumstances referred to in the preceding sentence), or any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit (including any document required to make a drawing thereunder), any error in interpretation of technical terms or any consequence arising from causes beyond the control of the Issuing Bank; provided that the foregoing shall not be construed to excuse the Issuing Bank from liability to the Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Borrower to the extent permitted by applicable law) suffered by the Borrower that are caused by the Issuing Bank's failure to exercise care when determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof. The parties hereto expressly agree that, in the absence of gross negligence or willful misconduct on the part of the Issuing Bank (as finally determined by a court of competent jurisdiction), the Issuing Bank shall be deemed to have exercised care in each such determination. In furtherance of the foregoing and without limiting the generality thereof, the parties agree that, with respect to documents presented which appear on their face to be in substantial compliance with the terms of a Letter of Credit, the Issuing Bank may, in its sole discretion, either accept and make payment upon such documents without responsibility for further investigation, regardless of any notice or information to the contrary, or refuse to accept and make payment upon such documents if such documents are not in strict compliance with the terms of such Letter of Credit.

(g) Disbursement Procedures. The Issuing Bank shall, promptly following its receipt thereof, examine all documents purporting to represent a demand for payment under a Letter of Credit. The Issuing Bank shall promptly notify the Administrative Agent and the Borrower by telephone (confirmed by facsimile) of such demand for payment and whether the Issuing Bank has made or will make an LC Disbursement thereunder; provided that any failure to give or delay in giving such notice shall not relieve the Borrower of its obligation to reimburse the Issuing Bank and the Lenders with respect to any such LC Disbursement.

(h) Interim Interest. If the Issuing Bank shall make any LC Disbursement, then, unless the Borrower shall reimburse such LC Disbursement in full on the date such LC Disbursement is made, the unpaid amount thereof shall bear interest, for each day from and including the date such LC Disbursement is made to but excluding the date that the Borrower reimburses such LC Disbursement, at the rate per annum then applicable to ABR Revolving Loans; provided that, if the Borrower fails to reimburse such LC Disbursement when due pursuant to paragraph (e) of this Section, then Section 2.13(d) shall apply. Interest accrued pursuant to this paragraph shall be for the account of the Issuing Bank, except that interest accrued on and after the date of payment by any Lender pursuant to paragraph (e) of this Section to reimburse the Issuing Bank shall be for the account of such Lender to the extent of such payment.

(i) Replacement of the Issuing Bank. The Issuing Bank may be replaced at any time by written agreement among the Borrower, the Administrative Agent, the replaced Issuing Bank and the successor Issuing Bank. The Administrative Agent shall notify the Lenders of any such replacement of the Issuing Bank. At the time any such replacement shall become effective, the Borrower shall pay all unpaid fees accrued for the account of the replaced Issuing Bank pursuant to

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Section 2.12(b). From and after the effective date of any such replacement, (i) the successor Issuing Bank shall have all the rights and obligations of the Issuing Bank under this Agreement with respect to Letters of Credit to be issued thereafter and (ii) references herein to the term "Issuing Bank" shall be deemed to refer to such successor or to any previous Issuing Bank, or to such successor and all previous Issuing Banks, as the context shall require. After the replacement of an Issuing Bank hereunder, the replaced Issuing Bank shall remain a party hereto and shall continue to have all the rights and obligations of an Issuing Bank under this Agreement with respect to Letters of Credit issued by it prior to such replacement, but shall not be required to issue additional Letters of Credit.

(j) Cash Collateralization. If any Event of Default shall occur and be continuing, on the Business Day that the Borrower receives notice from the Administrative Agent or the Required Lenders (or, if the maturity of the Loans has been accelerated, Lenders with LC Exposure representing greater than 50% of the total LC Exposure) demanding the deposit of cash collateral pursuant to this paragraph, the Borrower shall deposit in an account with the Administrative Agent, in the name of the Administrative Agent and for the benefit of the Secured Parties (the "LC Collateral Account"), an amount in cash equal to 103% of the LC Exposure as of such date plus accrued and unpaid interest thereon; provided that the obligation to deposit such cash collateral shall become effective immediately, and such deposit shall become immediately due and payable, without demand or other notice of any kind, upon the occurrence of any Event of Default with respect to the Borrower described in clause (h) or (i) of Article VII. Such deposit shall be held by the Administrative Agent as collateral for the payment and performance of the Secured Obligations. The Administrative Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over such account and the Borrower hereby grants the Administrative Agent a security interest in the LC Collateral Account. Other than any interest earned on the investment of such deposits, which investments shall be made at the option and Permitted Discretion of the Administrative Agent and at the Borrower's risk and expense, such deposits shall not bear interest. Interest or profits, if any, on such investments shall accumulate in such account. Moneys in such account shall be applied by the Administrative Agent to reimburse the Issuing Bank for LC Disbursements for which it has not been reimbursed and, to the extent not so applied, shall be held for the satisfaction of the reimbursement obligations of the Borrower for the LC Exposure at such time or, if the maturity of the Loans has been accelerated (but subject to the consent of Lenders with LC Exposure representing greater than 50% of the total LC Exposure), be applied to satisfy other Secured Obligations. If the Borrower is required to provide an amount of cash collateral hereunder as a result of the occurrence of an Event of Default, such amount (to the extent not applied as aforesaid) shall be returned to the Borrower within three (3) Business Days after all such Defaults have been cured or waived.

SECTION 2.07. Funding of Borrowings. (a) Each Lender shall make each Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds by 2:00 p.m., New York City time, to the account of the Administrative Agent most recently designated by it for such purpose by notice to the Lenders in an amount equal to such Lender's Applicable Percentage; provided that, Swingline Loans shall be made as provided in Section 2.05. The Administrative Agent will make such Loans available to the Borrower by promptly crediting the amounts so received, in like funds, to the Funding Account; provided that ABR Revolving Loans made to finance the reimbursement of (i) an LC Disbursement as provided in Section 2.06(e) shall be remitted by the Administrative Agent to the Issuing Bank and (ii) a Protective Advance or an Overadvance shall be retained by the Administrative Agent.

(b) Unless the Administrative Agent shall have received notice from a Lender prior to the proposed date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with paragraph (a) of this Section and may,

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in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at (i) in the case of such Lender, the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation or (ii) in the case of the Borrower, the interest rate applicable to ABR Loans. If such Lender pays such amount to the Administrative Agent, then such amount shall constitute such Lender's Loan included in such Borrowing.

SECTION 2.08. Interest Elections. (a) Each Revolving Borrowing initially shall be of the Type specified in the applicable Borrowing Request and, in the case of a Eurodollar Revolving Borrowing, shall have an initial Interest Period as specified in such Borrowing Request. Thereafter, the Borrower may elect to convert such Borrowing to a different Type or to continue such Borrowing and, in the case of a Eurodollar Revolving Borrowing, may elect Interest Periods therefor, all as provided in this Section. The Borrower may elect different options with respect to different portions of the affected Borrowing, in which case each such portion shall be allocated ratably among the Lenders holding the Loans comprising such Borrowing, and the Loans comprising each such portion shall be considered a separate Borrowing. This Section shall not apply to Swingline Borrowings, Overadvances or Protective Advances, which may not be converted or continued.

(b) To make an election pursuant to this Section, the Borrower shall notify the Administrative Agent of such election by telephone by the time that a Borrowing Request would be required under Section 2.03 if the Borrower were requesting a Revolving Borrowing of the Type resulting from such election to be made on the effective date of such election. Each such telephonic Interest Election Request shall be irrevocable and shall be confirmed promptly by hand delivery or facsimile to the Administrative Agent of a written Interest Election Request in a form approved by the Administrative Agent and signed by the Borrower.

(c) Each telephonic and written Interest Election Request shall specify the following information in compliance with Section 2.02:

(i) the Borrowing to which such Interest Election Request applies and, if different options are being elected with respect to different portions thereof, the portions thereof to be allocated to each resulting Borrowing (in which case the information to be specified pursuant to clauses (iii) and (iv) below shall be specified for each resulting Borrowing);

(ii) the effective date of the election made pursuant to such Interest Election Request, which shall be a Business Day;

(iii) whether the resulting Borrowing is to be an ABR Borrowing or a Eurodollar Borrowing; and

(iv) if the resulting Borrowing is a Eurodollar Borrowing, the Interest Period to be applicable thereto after giving effect to such election, which shall be a period contemplated by the definition of the term “Interest Period”.

If any such Interest Election Request requests a Eurodollar Borrowing but does not specify an Interest Period, then the Borrower shall be deemed to have selected an Interest Period of one month's duration.

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(d) Promptly following receipt of an Interest Election Request, the Administrative Agent shall advise each Lender of the details thereof and of such Lender's portion of each resulting Borrowing.

(e) If the Borrower fails to deliver a timely Interest Election Request with respect to a Eurodollar Revolving Borrowing prior to the end of the Interest Period applicable thereto, then, unless such Borrowing is repaid as provided herein, at the end of such Interest Period such Borrowing shall be converted to an ABR Borrowing. Notwithstanding any contrary provision hereof, if an Event of Default has occurred and is continuing and the Administrative Agent, at the request of the Required Lenders, so notifies the Borrower, then, so long as an Event of Default is continuing (i) no outstanding Revolving Borrowing may be converted to or continued as a Eurodollar Borrowing and (ii) unless repaid, each Eurodollar Revolving Borrowing shall be converted to an ABR Borrowing at the end of the Interest Period applicable thereto.

SECTION 2.09. Termination and Reduction of Commitments; Increase in Commitments (a) Unless previously terminated, the Commitments shall terminate on the Maturity Date.

(b) The Borrower may at any time terminate the Commitments upon (i) the payment in full of all outstanding Loans, together with accrued and unpaid interest thereon and on any Letters of Credit, (ii) the cancellation and return of all outstanding Letters of Credit (or alternatively, with respect to each such Letter of Credit, the furnishing to the Administrative Agent of a cash deposit (or at the discretion of the Administrative Agent a back up standby letter of credit satisfactory to the Administrative Agent) equal to 103% of the LC Exposure as of such date), (iii) the payment in full of the accrued and unpaid fees and (iv) the payment in full of all reimbursable expenses and other Obligations together with accrued and unpaid interest thereon.

(c) The Borrower may from time to time reduce the Commitments; provided that (i) each reduction of the Commitments shall be in an amount that is an integral multiple of \$1,000,000 and not less than \$5,000,000 and (ii) the Borrower shall not reduce the Commitments if, after giving effect to any concurrent prepayment of the Revolving Loans in accordance with Section 2.10, the sum of the Revolving Exposures would exceed the lesser of the total Commitments and the Borrowing Base.

(d) The Borrower shall notify the Administrative Agent of any election to terminate or reduce the Commitments under paragraph (b) or (c) of this Section at least three (3) Business Days prior to the effective date of such termination or reduction, specifying such election and the effective date thereof. Promptly following receipt of any notice, the Administrative Agent shall advise the Lenders of the contents thereof. Each notice delivered by the Borrower pursuant to this Section shall be irrevocable; provided that a notice of termination of the Commitments delivered by the Borrower may state that such notice is conditioned upon the effectiveness of other credit facilities, in which case such notice may be revoked by the Borrower (by notice to the Administrative Agent on or prior to the specified effective date) if such condition is not satisfied. Any termination or reduction of the Commitments shall be permanent. Each reduction of the Commitments shall be made ratably among the Lenders in accordance with their respective Commitments.

(e) The Borrower shall have the right to increase the Aggregate Commitment by obtaining additional Commitments, either from one or more of the Lenders or another lending institution provided that (i) any such request for an increase shall be in a minimum amount of \$5,000,000, (ii) the Borrower may make a maximum of two (2) such requests, (iii) after giving effect thereto, the Aggregate Commitment does not exceed \$60,000,000, (iv) the Administrative Agent has approved the identity of any such new Lender, such approval not to be unreasonably withheld, (v) any

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such new Lender assumes all of the rights and obligations of a “Lender” hereunder, (vi) the procedure described in Section 2.09(f) have been satisfied and (vii) solely during the period commencing on the Effective Date and ending 90 days thereafter, the percentage rate on any upfront or similar fee paid to such new Lender in respect of its Commitment (the “New Upfront Fee Rate”) shall not exceed the percentage rate on upfront fees paid to the other Lenders in respect of their Commitments (the “Original Upfront Fee Rate”) unless the Borrower pays the incremental difference (if positive) in percentage between the New Upfront Fee Rate and the Original Upfront Fee Rate to such other Lenders in respect of their Commitments.

(f) Any amendment hereto for such an increase or addition shall be in form and substance satisfactory to the Administrative Agent and shall only require the written signatures of the Administrative Agent, the Borrower and the Lender(s) being added or increasing their Commitment. As a condition precedent to such an increase, Borrower shall deliver to the Administrative Agent (i) a certificate of each Loan Party signed by an authorized officer of such Loan Party (A) certifying and attaching the resolutions adopted by such Loan Party approving or consenting to such increase, and (B) in the case of the Borrower, certifying that, before and after giving effect to such increase, (1) the representations and warranties contained in Article III and the other Loan Documents are true and correct, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date, and (2) no Default exists and (ii) legal opinions and documents consistent with those delivered on the Effective Date as to the corporate power and authority of the Loan Parties.

(g) Within a reasonable time after the effective date of any increase, the Administrative Agent shall, and is hereby authorized and directed to, revise Schedule 2.01 to reflect such increase and shall distribute such revised Schedule 2.01 to each of the Lenders and the Borrower, whereupon such revised Schedule 2.01 shall replace the old Schedule 2.01 and become part of this Agreement. On the Business Day following any such increase, all outstanding ABR Loans shall be reallocated among the Lenders (including any newly added Lenders) in accordance with the Lenders' respective revised Applicable Percentages. Eurodollar Loans shall not be reallocated among the Lenders prior to the expiration of the applicable Interest Period in effect at the time of any such increase.

SECTION 2.10. Repayment and Amortization of Loans; Evidence of Debt (a) The Borrower hereby unconditionally promises to pay (i) to the Administrative Agent for the account of each Lender the then unpaid principal amount of each Revolving Loan on the Maturity Date, (ii) to the Administrative Agent the then unpaid amount of each Protective Advance on the earlier of the Maturity Date and demand by the Administrative Agent and (iii) to the Administrative Agent the then unpaid principal amount of each Overadvance on the earlier of the Maturity Date and demand by the Administrative Agent.

(b) At all times that full cash dominion is in effect pursuant to Section 7.3 of the Security Agreement, on each Business Day, the Administrative Agent shall apply all funds credited to the Collection Account the previous Business Day (whether or not immediately available) first to prepay any Protective Advances and Overadvances that may be outstanding, pro rata, and second to prepay the Revolving Loans (including Swing Line Loans) and to cash collateralize outstanding LC Exposure. If no Default is continuing, the amount of such cash collateral securing outstanding LC Exposure shall be returned to the Borrower within three (3) Business Days.



(c) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made

by such Lender, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(d) The Administrative Agent shall maintain accounts in which it shall record (i) the amount of each Loan made hereunder, the Class and Type thereof and the Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder for the account of the Lenders and each Lender's share thereof.

(e) The entries made in the accounts maintained pursuant to paragraph (c) or (d) of this Section shall be prima facie evidence of the existence and amounts of the obligations recorded therein; provided that the failure of any Lender or the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans in accordance with the terms of this Agreement.

(f) Any Lender may request that Loans made by it be evidenced by a promissory note. In such event, the Borrower shall prepare, execute and deliver to such Lender a promissory note payable to the order of such Lender (or, if requested by such Lender, to such Lender and its registered assigns) and in a form approved by the Administrative Agent. Thereafter, the Loans evidenced by such promissory note and interest thereon shall at all times (including after assignment pursuant to Section 9.04) be represented by one or more promissory notes in such form payable to the order of the payee named therein (or, if such promissory note is a registered note, to such payee and its registered assigns).

SECTION 2.11. Prepayment of Loans. (a) The Borrower shall have the right at any time and from time to time to prepay any Borrowing in whole or in part, subject to prior notice in accordance with paragraph (f) of this Section.

(b) Except for Overadvances permitted under Section 2.05, in the event and on such occasion that the total Revolving Exposure exceeds (the amount of such excess, the "Excess") the lesser of (A) the Aggregate Commitment or (B) the Borrowing Base, the Borrower shall prepay the Revolving Loans, LC Exposure and/or Swingline Loans in an aggregate amount equal to such Excess. If such Excess is subsequently reduced and no Default is continuing, any such cash collateral so provided by the Borrower shall be returned to the Borrower (in an amount equal to the lesser of (i) any such reduction in the Excess and (ii) the amount of such cash collateral) within three (3) Business Days after such reduction.

(c) In the event and on each occasion that any Net Proceeds are received by or on behalf of any Loan Party in respect of any Prepayment Event, the Borrower shall, within three (3) Business Days after such Net Proceeds are received by any Loan Party, prepay the Obligations as set forth in Section 2.11(e) below in an aggregate amount equal to 100% of such Net Proceeds.

(d) [Intentionally Omitted].

(e) All such amounts pursuant to Section 2.11(c) shall be applied, first to prepay any Protective Advances and Overadvances that may be outstanding, pro rata, and second to prepay the Revolving Loans (including Swing Line Loans) without a corresponding reduction in the Commitment and, so long as a Default is continuing, to cash collateralize outstanding LC Exposure.

(f) The Borrower shall notify the Administrative Agent (and, in the case of prepayment of a Swingline Loan, the Swingline Lender) by telephone (confirmed by facsimile) of any

prepayment hereunder (i) in the case of prepayment of a Eurodollar Revolving Borrowing, not later than 11:00 a.m., New York City time, three (3) Business Days before the date of prepayment, or (ii) in the case of prepayment of an ABR Revolving Borrowing, not later than 11:00 a.m., New York City time, one (1) Business Day before the date of prepayment. Each such notice shall be irrevocable and shall specify the prepayment date and the principal amount of each Borrowing or portion thereof to be prepaid; provided that, if a notice of prepayment is given in connection with a conditional notice of termination of the Commitments as contemplated by Section 2.09, then such notice of prepayment may be revoked if such notice of termination is revoked in accordance with Section 2.09. Promptly following receipt of any such notice relating to a Revolving Borrowing, the Administrative Agent shall advise the Lenders of the contents thereof. Each partial prepayment of any Revolving Borrowing shall be in an amount that would be permitted in the case of an advance of a Revolving Borrowing of the same Type as provided in Section 2.02. Each prepayment of a Revolving Borrowing shall be applied ratably to the Revolving Loans included in the prepaid Borrowing. Prepayments shall be accompanied by accrued interest to the extent required by Section 2.13.

SECTION 2.12. Fees. (a) The Borrower agrees to pay to the Administrative Agent for the account of each Lender a commitment fee, which shall accrue at the Applicable Rate on the average daily amount of the Available Commitment of such Lender during the period from and including the Effective Date to but excluding the date on which the Lenders' Commitments terminate. Accrued commitment fees shall be payable in arrears on the first day of each calendar quarter and on the date on which the Commitments terminate, commencing on the first such date to occur after the date hereof. All commitment fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed.

(b) The Borrower agrees to pay (i) to the Administrative Agent for the account of each Lender a participation fee with respect to its participations in Letters of Credit, which shall accrue, in the case of standby Letters of Credit at the same Applicable Rate and, in the case of Commercial Letters of Credit at 50% of such Applicable Rate, in each case used to determine the interest rate applicable to Eurodollar Revolving Loans on the average daily amount of such Lender's LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Effective Date to but excluding the later of the date on which such Lender's Commitment terminates and the date on which such Lender ceases to have any LC Exposure, and (ii) to the Issuing Bank a fronting fee, which shall accrue at the rate of 0.125% per annum on the average daily amount of the LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Effective Date to but excluding the later of the date of termination of the Commitments and the date on which there ceases to be any LC Exposure, as well as the Issuing Bank's standard fees and commissions (including without limitation standard commissions with respect to Commercial Letters of Credit, payable at the time of invoice of such amounts) with respect to the issuance, amendment, renewal or extension of any Letter of Credit or processing of drawings thereunder. Participation fees and fronting fees accrued through and including the last day of each calendar quarter shall be payable on the first day of each calendar quarter following such last day, commencing on the first such date to occur after the Effective Date; provided that all such fees shall be payable on the date on which the Commitments terminate and any such fees accruing after the date on which the Commitments terminate shall be payable on demand. Any other fees payable to the Issuing Bank pursuant to this paragraph shall be payable within ten (10) days after demand. All participation fees and fronting fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed.

(c) The Borrower agrees to pay to the Administrative Agent, for its own account, fees payable in the amounts and at the times separately agreed upon between the Borrower and the Administrative Agent.

(d) All fees payable hereunder shall be paid on the dates due, in immediately available funds, to the Administrative Agent (or to the Issuing Bank, in the case of fees payable to it) for distribution, in the case of commitment fees and participation fees, to the Lenders. Fees paid shall not be refundable under any circumstances.

SECTION 2.13. Interest. (a) The Loans comprising each ABR Borrowing (including each Swingline Loan) shall bear interest at the Alternate Base Rate plus the Applicable Rate.

(b) The Loans comprising each Eurodollar Borrowing shall bear interest at the Adjusted LIBO Rate for the Interest Period in effect for such Borrowing plus the Applicable Rate.

(c) Each Protective Advance and each Overadvance shall bear interest at the Alternate Base Rate plus the Applicable Rate for Revolving Loans plus 2%.

(d) Notwithstanding the foregoing, during the occurrence and continuance of an Event of Default, the Administrative Agent or the Required Lenders may, at their option, by notice to the Borrower (which notice may be revoked at the option of the Required Lenders notwithstanding any provision of Section 9.02 requiring the consent of "each Lender directly affected thereby" for reductions in interest rates), declare that (i) all Loans shall bear interest at 2% plus the rate otherwise applicable to such Loans as provided in the preceding paragraphs of this Section or (ii) in the case of any other amount outstanding hereunder, such amount shall accrue at 2% plus the rate applicable to such fee or other obligation as provided hereunder.

(e) Accrued interest on each Loan (for ABR Loans, accrued through the last day of the prior calendar month) shall be payable in arrears on each Interest Payment Date for such Loan and upon termination of the Commitments; provided that (i) interest accrued pursuant to paragraph (d) of this Section shall be payable on demand, (ii) in the event of any repayment or prepayment of any Loan (other than a prepayment of an ABR Revolving Loan prior to the end of the Availability Period), accrued interest on the principal amount repaid or prepaid shall be payable on the date of such repayment or prepayment and (iii) in the event of any conversion of any Eurodollar Loan prior to the end of the current Interest Period therefor, accrued interest on such Loan shall be payable on the effective date of such conversion.

(f) All interest hereunder shall be computed on the basis of a year of 360 days, except that interest computed by reference to the Alternate Base Rate at times when the Alternate Base Rate is based on the Prime Rate shall be computed on the basis of a year of 365 days (or 366 days in a leap year), and in each case shall be payable for the actual number of days elapsed. The applicable Alternate Base Rate, Adjusted LIBO Rate or LIBO Rate shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

SECTION 2.14. Alternate Rate of Interest. If prior to the commencement of any Interest Period for a Eurodollar Borrowing:

(a) the Administrative Agent determines (which determination shall be conclusive absent manifest error) that adequate and reasonable means do not exist for ascertaining the Adjusted LIBO Rate or the LIBO Rate, as applicable, for such Interest Period; or

(b) the Administrative Agent is advised by the Required Lenders that the Adjusted LIBO Rate or the LIBO Rate, as applicable, for such Interest Period will not adequately and fairly reflect the cost to such Lenders (or Lender) of making or maintaining their Loans (or its Loan) included in such Borrowing for such Interest Period;

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then the Administrative Agent shall give notice thereof to the Borrower and the Lenders by telephone or facsimile as promptly as practicable thereafter and, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist, (i) any Interest Election Request that requests the conversion of any Revolving Borrowing to, or continuation of any Revolving Borrowing as, a Eurodollar Borrowing shall be ineffective, and (ii) if any Borrowing Request requests a Eurodollar Revolving Borrowing, such Borrowing shall be made as an ABR Borrowing.

SECTION 2.15. Increased Costs. (a) If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender (except any such reserve requirement reflected in the Adjusted LIBO Rate) or the Issuing Bank; or

(ii) impose on any Lender or the Issuing Bank or the London interbank market any other condition affecting this Agreement or Eurodollar Loans made by such Lender or any Letter of Credit or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Eurodollar Loan (or of maintaining its obligation to make any such Loan) or to increase the cost to such Lender or the Issuing Bank of participating in, issuing or maintaining any Letter of Credit or to reduce the amount of any sum received or receivable by such Lender or the Issuing Bank hereunder (whether of principal, interest or otherwise), then the Borrower will pay to such Lender or the Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or the Issuing Bank, as the case may be, for such additional costs incurred or reduction suffered.

(b) If any Lender or the Issuing Bank determines that any Change in Law regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's or the Issuing Bank's capital or on the capital of such Lender's or the Issuing Bank's holding company, if any, as a consequence of this Agreement or the Loans made by, or participations in Letters of Credit held by, such Lender, or the Letters of Credit issued by the Issuing Bank, to a level below that which such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company could have achieved but for such Change in Law (taking into consideration such Lender's or the Issuing Bank's policies and the policies of such Lender's or the Issuing Bank's holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Lender or the Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company for any such reduction suffered.

(c) A certificate of a Lender or the Issuing Bank setting forth the amount or amounts necessary to compensate such Lender or the Issuing Bank or its holding company, as the case may be, as specified in paragraph (a) or (b) of this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender or the Issuing Bank, as the case may be, the amount shown as due on any such certificate within ten (10) days after receipt thereof.

(d) Failure or delay on the part of any Lender or the Issuing Bank to demand compensation pursuant to this Section shall not constitute a waiver of such Lender's or the Issuing Bank's right to demand such compensation; provided that the Borrower shall not be required to compensate a Lender or the Issuing Bank pursuant to this Section for any increased costs or reductions incurred more than 270 days prior to the date that such Lender or the Issuing Bank, as the case may be, notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's or the Issuing Bank's intention to claim compensation therefor; provided further that, if

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the Change in Law giving rise to such increased costs or reductions is retroactive, then the 270-day period referred to above shall be extended to include the period of retroactive effect thereof.

SECTION 2.16. Break Funding Payments. In the event of (a) the payment of any principal of any Eurodollar Loan other than on the last day of an Interest Period applicable thereto (including as a result of an Event of Default), (b) the conversion of any Eurodollar Loan other than on the last day of the Interest Period applicable thereto, (c) the failure to borrow, convert, continue or prepay any Eurodollar Loan on the date specified in any notice delivered pursuant hereto (regardless of whether such notice may be revoked under Section 2.09(d) and is revoked in accordance therewith), or (d) the assignment of any Eurodollar Loan other than on the last day of the Interest Period applicable thereto as a result of a request by the Borrower pursuant to Section 2.19, then, in any such event, the Borrower shall compensate each Lender for the loss, cost and expense attributable to such event. In the case of a Eurodollar Loan, such loss, cost or expense to any Lender shall be deemed to include an amount determined by such Lender to be the excess, if any, of (i) the amount of interest which would have accrued on the principal amount of such Loan had such event not occurred, at the Adjusted LIBO Rate that would have been applicable to such Loan, for the period from the date of such event to the last day of the then current Interest Period therefor (or, in the case of a failure to borrow, convert or continue, for the period that would have been the Interest Period for such Loan), over (ii) the amount of interest which would accrue on such principal amount for such period at the interest rate which such Lender would bid were it to bid, at the commencement of such period, for dollar deposits of a comparable amount and period from other banks in the eurodollar market. A certificate of any Lender setting forth any amount or amounts that such Lender is entitled to receive pursuant to this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such certificate within ten (10) days after receipt thereof.

SECTION 2.17. Taxes. (a) Any and all payments by or on account of any obligation of the Borrower hereunder shall be made free and clear of and without deduction for any Indemnified Taxes or Other Taxes; provided that if the Borrower shall be required to deduct any Indemnified Taxes or Other Taxes from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the Administrative Agent, Lender or Issuing Bank (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) In addition, the Borrower shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) The Borrower shall indemnify the Administrative Agent, each Lender and the Issuing Bank, within ten (10) days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes paid by the Administrative Agent, such Lender or the Issuing Bank, as the case may be, on or with respect to any payment by or on account of any obligation of the Borrower hereunder (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by a Lender or the Issuing Bank, or by the Administrative Agent on its own behalf or on behalf of a Lender or the Issuing Bank, shall be conclusive absent manifest error.

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(d) Each Lender and the Issuing Bank shall indemnify the Borrower and the Administrative Agent, within ten (10) days after written demand therefor, against any and all Taxes and any and all related losses, claims, liabilities, penalties, interest and reasonable expenses (including the fees, charges and disbursements of any counsel for the Borrower or the Administrative Agent) incurred by or asserted against the Borrower or the Administrative Agent by any Governmental Authority as a result of the failure by such Lender or the Issuing Bank, as the case may be, to deliver, or as a result of the inaccuracy, inadequacy or deficiency of, any documentation required to be delivered to the Borrower or the Administrative Agent pursuant to Section 2.17(f). Each Lender and the Issuing Bank hereby authorizes the Administrative Agent to set off and apply any and all amounts at any time owing to such Lender or the Issuing Bank, as the case may be, under this Agreement or any other Loan Document against any amount due to the Administrative Agent under this Section 2.17(d).

(e) As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower to a Governmental Authority, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(f) Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which the Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable law or reasonably requested by the Borrower as will permit such payments to be made without withholding or at a reduced rate.

(g) If the Administrative Agent or a Lender determines, in its sole good faith discretion, that it has received a refund of any Taxes or Other Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 2.17, it shall pay over such refund to the Borrower (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower under this Section 2.17 with respect to the Taxes or Other Taxes giving rise to such refund), net of all out-of-pocket expenses of the Administrative Agent or such Lender and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund); provided, that the Borrower, upon the request of the Administrative Agent or such Lender, agrees to repay the amount paid over to the Borrower (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Administrative Agent or such Lender in the event the Administrative Agent or such Lender is required to repay such refund to such Governmental Authority. This Section shall not be construed to require the Administrative Agent or any Lender to make available its tax returns (or any other information relating to its taxes which it deems confidential) to the Borrower or any other Person.

SECTION 2.18. Payments Generally; Allocation of Proceeds; Sharing of Set-offs. (a) The Borrower shall make each payment required to be made by it hereunder (whether of principal, interest, fees or reimbursement of LC Disbursements, or of amounts payable under Section 2.15, 2.16 or 2.17, or otherwise) prior to 3:00 p.m., New York City time, on the date when due, in immediately available funds, without set off or counterclaim. Any amounts received after such time on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Administrative Agent at its offices at 10 South Dearborn Street, 22<sup>nd</sup> Floor, Chicago, Illinois, except payments to be made directly to the Issuing Bank or Swingline Lender as expressly provided herein and

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except that payments pursuant to Sections 2.15, 2.16, 2.17 and 9.03 shall be made directly to the Persons entitled thereto. The Administrative Agent shall distribute any such payments received by it for the account of any other Person to the appropriate recipient promptly following receipt thereof. If any payment hereunder shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day, and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension. All payments hereunder shall be made in dollars.

(b) Any proceeds of Collateral received by the Administrative Agent (i) not constituting either (A) a specific payment of principal, interest, fees or other sum payable under the Loan Documents (which shall be applied as specified by the Borrower), (B) a mandatory prepayment (which shall be applied in accordance with

Section 2.11) or (C) amounts to be applied from the Collection Account when full cash dominion is in effect pursuant to Section 7.3 of the Security Agreement (which shall be applied in accordance with Section 2.10(b)) or (ii) after an Event of Default has occurred and is continuing and the Administrative Agent so elects or the Required Lenders so direct, such proceeds shall be applied ratably first, to pay any fees, indemnities, or expense reimbursements including amounts then due to the Administrative Agent and the Issuing Bank from the Borrower (other than in connection with Banking Services or Swap Obligations), second, to pay any fees or expense reimbursements then due to the Lenders from the Borrower (other than in connection with Banking Services or Swap Obligations), third, to pay interest due in respect of the Overadvances and Protective Advances, fourth, to pay the principal of the Overadvances and Protective Advances, fifth, to pay interest then due and payable on the Loans (other than the Overadvances and Protective Advances) ratably, sixth, to prepay principal on the Loans (other than the Overadvances and Protective Advances) and unreimbursed LC Disbursements ratably, seventh, to pay an amount to the Administrative Agent equal to one hundred three percent (103%) of the aggregate undrawn face amount of all outstanding Letters of Credit and the aggregate amount of any unpaid LC Disbursements, to be held as cash collateral for such Obligations, eighth, to payment of any amounts owing with respect to Banking Services and Swap Obligations, and ninth, to the payment of any other Secured Obligation due to the Administrative Agent or any Lender by the Borrower. Notwithstanding anything to the contrary contained in this Agreement, unless so directed by the Borrower, or unless a Default is in existence, neither the Administrative Agent nor any Lender shall apply any payment which it receives to any Eurodollar Loan of a Class, except (a) on the expiration date of the Interest Period applicable to any such Eurodollar Loan or (b) in the event, and only to the extent, that there are no outstanding ABR Loans of the same Class and, in any such event, the Borrower shall pay the break funding payment required in accordance with Section 2.16. The Administrative Agent and the Lenders shall have the continuing and exclusive right to apply and reverse and reapply any and all such proceeds and payments to any portion of the Secured Obligations.

(c) At the election of the Administrative Agent, all payments of principal, interest, LC Disbursements, fees, premiums, reimbursable expenses (including, without limitation, all reimbursement for fees and expenses pursuant to Section 9.03), and other sums payable under the Loan Documents, may be paid from the proceeds of Borrowings made hereunder whether made following a request by the Borrower pursuant to Section 2.03 or a deemed request as provided in this Section or may be deducted from any deposit account of the Borrower maintained with the Administrative Agent. The Borrower hereby irrevocably authorizes (i) the Administrative Agent to make a Borrowing for the purpose of paying each payment of principal, interest and fees as it becomes due hereunder or any other amount due under the Loan Documents and agrees that all such amounts charged shall constitute Loans (including Swingline Loans and Overadvances, but such a Borrowing may only constitute a Protective Advance if it is to reimburse costs, fees and expenses as described in Section 9.03) and that all such Borrowings shall be deemed to have been requested pursuant to Sections 2.03, 2.04 or 2.05, as applicable and (ii) the Administrative Agent to charge any deposit

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account of the Borrower maintained with the Administrative Agent for each payment of principal, interest and fees as it becomes due hereunder or any other amount due under the Loan Documents.

(d) If any Lender shall, by exercising any right of set off or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of its Loans or participations in LC Disbursements resulting in such Lender receiving payment of a greater proportion of the aggregate amount of its Loans and participations in LC Disbursements and accrued interest thereon than the proportion received by any other Lender, then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in the Loans and participations in LC Disbursements of other Lenders to the extent necessary so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Loans and participations in LC Disbursements; provided that (i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest, and (ii) the provisions of this paragraph shall not be construed to apply to any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans or participations in LC Disbursements to any assignee or participant, other than to the Borrower or any Subsidiary or Affiliate thereof (as to which the provisions of this paragraph shall apply). The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower rights of set-off and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower in the amount of such participation.

(e) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders or the Issuing Bank hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders or the Issuing Bank, as the case may be, the amount due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders or the Issuing Bank, as the case may be, severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender or Issuing Bank with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

(f) If any Lender shall fail to make any payment required to be made by it pursuant to Section 2.05, 2.06(d) or (e), 2.07(b), 2.18(e) or 9.03(c), then the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), (i) apply any amounts thereafter received by the Administrative Agent for the account of such Lender and for the benefit of the Administrative Agent, the Swingline Lender or the Issuing Bank to satisfy such Lender's obligations under such Sections until all such unsatisfied obligations are fully paid, and/or (ii) hold any such amounts in a segregated account as cash collateral for, and application to, any future funding obligations of such Lender under such Sections; in the case of each of (i) and (ii) above, in any order as determined by the Administrative Agent in its discretion.

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#### SECTION 2.19. Mitigation Obligations; Replacement of Lenders.

(a) If any Lender requests compensation under Section 2.15, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.17, then such Lender shall use reasonable efforts to designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 2.15 or 2.17, as the case may be, in the future and (ii) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) If any Lender requests compensation under Section 2.15, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.17, or if any Lender becomes a Defaulting Lender, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in Section 9.04), all its interests, rights and obligations under this Agreement to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment); provided that (i) the Borrower shall have received the prior written consent of the Administrative Agent (and if a Commitment is being assigned, the Issuing Bank), which consent shall not unreasonably be withheld, (ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans and participations in LC Disbursements and Swingline Loans, accrued interest thereon, accrued fees and all other amounts payable to it hereunder, from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts) and (iii) in the case of any such assignment resulting from a claim for compensation under Section 2.15 or payments required to be made pursuant to Section 2.17, such assignment will result in a reduction in such compensation or payments. A Lender shall not be required to make any such assignment and delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

SECTION 2.20. Defaulting Lenders. Notwithstanding any provision of this Agreement to the contrary, if any Lender becomes a Defaulting Lender, then the following provisions shall apply for so long as such Lender is a Defaulting Lender:

(a) fees shall cease to accrue on the unfunded portion of the Commitment of such Defaulting Lender pursuant to Section 2.12(a);

(b) the Commitment and Revolving Exposure of such Defaulting Lender shall not be included in determining whether all Lenders or the Required Lenders have taken or may take any action hereunder (including any consent to any amendment or waiver pursuant to Section 9.02); provided that any waiver, amendment or modification requiring the consent of all Lenders or each affected Lender which affects such Defaulting Lender differently than other affected Lenders shall require the consent of such Defaulting Lender;

(c) if any Swingline Exposure or LC Exposure exists at the time a Lender becomes a Defaulting Lender then:

(i) all or any part of such Swingline Exposure and LC Exposure shall be reallocated among the non-Defaulting Lenders in accordance with their respective Applicable Percentages but only to the extent (x) the sum of all non-Defaulting Lenders' Revolving Exposures plus such

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Defaulting Lender's Swingline Exposure and LC Exposure does not exceed the total of all non-Defaulting Lenders' Commitments and (y) the conditions set forth in Section 4.02 are satisfied at such time; and

(ii) if the reallocation described in clause (i) above cannot, or can only partially, be effected, the Borrower shall within one (1) Business Day following notice by the Administrative Agent (x) first, prepay such Swingline Exposure and (y) second, cash collateralize such Defaulting Lender's LC Exposure (after giving effect to any partial reallocation pursuant to clause (i) above) in accordance with the procedures set forth in Section 2.06(j) for so long as such LC Exposure is outstanding;

(iii) if the Borrower cash collateralizes any portion of such Defaulting Lender's LC Exposure pursuant to Section 2.20(c), the Borrower shall not be required to pay any fees to such Defaulting Lender pursuant to Section 2.12(b) with respect to such Defaulting Lender's LC Exposure during the period such Defaulting Lender's LC Exposure is cash collateralized;

(iv) if the LC Exposure of the non-Defaulting Lenders is reallocated pursuant to Section 2.20(c), then the fees payable to the Lenders pursuant to Section 2.12(a) and Section 2.12(b) shall be adjusted in accordance with such non-Defaulting Lenders' Applicable Percentages; or

(v) if any Defaulting Lender's LC Exposure is neither cash collateralized nor reallocated pursuant to Section 2.20(c), then, without prejudice to any rights or remedies of the Issuing Bank or any Lender hereunder, all letter of credit fees payable under Section 2.12(b) with respect to such Defaulting Lender's LC Exposure shall be payable to the Issuing Bank until such LC Exposure is cash collateralized and/or reallocated; and

(d) so long as any Lender is a Defaulting Lender, the Issuing Bank shall not be required to issue, amend or increase any Letter of Credit, unless it is satisfied that the related exposure will be 100% covered by the Commitments of the non-Defaulting Lenders and/or cash collateral will be provided by the Borrower in accordance with Section 2.20(c), and participating interests in any such newly issued or increased Letter of Credit or newly made Swingline Loan shall be allocated among non-Defaulting Lenders in a manner consistent with Section 2.20(c)(i) (and Defaulting Lenders shall not participate therein).

In the event that the Administrative Agent, the Borrower, the Issuing Bank and the Swingline Lender each agrees that a Defaulting Lender has adequately remedied all matters that caused such Lender to be a Defaulting Lender, then the Swingline Exposure and LC Exposure of the Lenders shall be readjusted to reflect the inclusion of such Lender's Commitment and on such date such Lender shall purchase at par such of the Loans of the other Lenders (other than Swingline Loans) as the Administrative Agent shall determine may be necessary in order for such Lender to hold such Loans in accordance with its Applicable Percentage.

SECTION 2.21. Returned Payments. If after receipt of any payment which is applied to the payment of all or any part of the Obligations, the Administrative Agent or any Lender is for any reason compelled to surrender such payment or proceeds to any Person because such payment or application of proceeds is invalidated, declared fraudulent, set aside, determined to be void or voidable as a preference, impermissible setoff, or a diversion of trust funds, or for any other reason, then the Obligations or part thereof intended to be satisfied shall be revived and continued and this Agreement shall continue in full force as if such payment or proceeds had not been received by the Administrative Agent or such Lender. The provisions of this Section 2.21 shall be and remain effective notwithstanding any contrary action which may have been taken by the Administrative Agent or any Lender in reliance

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upon such payment or application of proceeds. The provisions of this Section 2.21 shall survive the termination of this Agreement.

SECTION 2.22. Senior Debt. The Borrower hereby designates all Secured Obligations now or hereinafter incurred or otherwise outstanding, and agrees that the Secured Obligations shall at all times constitute, senior indebtedness and designated senior indebtedness, or terms of similar import, which are entitled to the benefits of the subordination provisions of all Subordinated Indebtedness.

### ARTICLE III

#### Representations and Warranties

Each Loan Party represents and warrants to the Lenders that:

SECTION 3.01. Organization; Powers. Each of the Loan Parties and each of its Subsidiaries (other than Excluded Subsidiaries) is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, has all requisite power and authority to carry on its business as now conducted, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, and is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required, except where the failure to so qualify could not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect.

SECTION 3.02. Authorization; Enforceability. The Transactions are within each Loan Party's organizational powers and have been duly authorized by all necessary organizational actions and, if required, actions by equity holders. The Loan Documents to which each Loan Party is a party have been duly executed and delivered by such Loan Party and constitute a legal, valid and binding obligation of such Loan Party, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

SECTION 3.03. Governmental Approvals; No Conflicts. The Transactions (a) do not require any consent or approval of, registration or filing with, or any other action by, any Governmental Authority, except such as have been obtained or made and are in full force and effect and except for filings necessary to perfect Liens

created pursuant to the Loan Documents, (b) will not violate in any material respect any Requirement of Law applicable to any Loan Party or any of its Subsidiaries, (c) will not violate or result in a default under any indenture, material agreement or other material instrument binding upon any Loan Party or any of its Subsidiaries or its assets, or give rise to a right thereunder to require any payment to be made by any Loan Party or any of its Subsidiaries, and (d) will not result in the creation or imposition of any Lien on any asset of any Loan Party or any of its Subsidiaries, except Liens created pursuant to the Loan Documents.

**SECTION 3.04. Financial Condition; No Material Adverse Change.** (a) Holdings has heretofore furnished to the Lenders its consolidated balance sheet and statements of income, stockholders equity and cash flows (i) as of and for the fiscal year ended June 30, 2008, reported on by KPMG LLP, independent public accountants, and (ii) as of and for the fiscal quarter ended March 31, 2009, certified by its chief financial officer. Such financial statements present fairly, in all material respects, the financial position and results of operations and cash flows of Holdings and its consolidated Subsidiaries as of such dates and for such periods in accordance with GAAP, subject to year end audit adjustments and the absence of footnotes in the case of the statements referred to in clause (ii) above.

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(b) No event, change or condition has occurred that has had, or could reasonably be expected to have, a Material Adverse Effect, since March 31, 2009.

**SECTION 3.05. Properties.** (a) Each of the Loan Parties and its Subsidiaries has good and marketable title to, or valid leasehold interests in, all its material real and personal property, free of all Liens other than those permitted by Section 6.02.

(b) Each Loan Party and its Subsidiaries owns, or is licensed to use, all trademarks, tradenames, copyrights, patents and other intellectual property necessary to its business as currently conducted, and the use thereof by the Loan Parties and its Subsidiaries does not infringe in any material respect upon the rights of any other Person, and the Loan Parties' rights thereto are not subject to any licensing agreement or similar arrangement (other than customary licensing agreements and arrangements in respect of software, technology and advertising).

**SECTION 3.06. Litigation and Environmental Matters.** (a) Except for the Disclosed Matters, there are not any actions, suits or proceedings at law or in equity or by or before any Governmental Authority now pending or, to the knowledge of Holdings or the Borrower, threatened against or affecting Holdings or the Borrower or any Subsidiary or any business, property or rights of any such Person (i) which involve any Loan Document or the Transactions or (ii) as to which there is a reasonable possibility of an adverse determination and which (A) if adversely determined, would individually result in a loss of greater than \$300,000 or (B) if adversely determined (excluding any actions, suits or proceedings at law or in equity or by or before any Governmental Authority that would individually result in a loss of \$300,000 or less), in the aggregate could reasonably be expected to result in a Material Adverse Effect.

(b) None of Holdings, the Borrower or any of the Subsidiaries or any of their respective material properties or assets is in violation of, nor will the continued operation of their material properties and assets as currently conducted violate, any law, rule or regulation (including any zoning, building, Environmental Law, ordinance, code or approval or any building permits), or is in default with respect to any judgment, writ, injunction or decree of any Governmental Authority, except any such violations or defaults that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

(c) Except for the Disclosed Matters, the soils and groundwater beneath the properties and facilities owned or operated by Holdings, the Borrower and the Subsidiaries (the "Properties") do not contain any Hazardous Materials in amounts or concentrations which (i) constitute a violation of, or (ii) give rise to liability under, Environmental Laws, which violations and liabilities, in the aggregate, could reasonably be expected to result in a Material Adverse Effect.

(d) Except for the Disclosed Matters, the Properties and all operations of Holdings, the Borrower and the Subsidiaries are in compliance, and in the last three years have been in compliance, with all Environmental Laws and all necessary Environmental Permits have been obtained and are in effect, except to the extent that such non-compliance or failure to obtain any necessary permits, in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

(e) Except for the Disclosed Matters, there have been no Releases or threatened Releases at, from, under or proximate to the Properties or otherwise in connection with the operations of Holdings, the Borrower or the Subsidiaries, which Releases or threatened Releases, in the aggregate, could reasonably be anticipated to result in a Material Adverse Effect.

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(f) Except for the Disclosed Matters, none of Holdings, the Borrower or any of the Subsidiaries has received any written notice of an Environmental Claim in connection with the Properties or the operations of the Borrower or the Subsidiaries or with regard to any person whose liabilities for environmental matters Holdings, the Borrower or the Subsidiaries has retained or assumed, in whole or in part, contractually, by operation of law or otherwise, which, in the aggregate, could reasonably be anticipated to result in a Material Adverse Effect, nor do Holdings, the Borrower or the Subsidiaries have reason to believe that any such notice will be received or is being threatened.

(g) Since the date of this Agreement, there has been no change in the status of the Disclosed Matters that, individually or in the aggregate, has resulted in, or materially increased the likelihood of, a Material Adverse Effect.

**SECTION 3.07. Compliance with Laws and Agreements.** Each Loan Party and its Subsidiaries is in compliance with all Requirements of Law applicable to it or its property and all indentures, agreements and other instruments binding upon it or its property, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. No Default has occurred and is continuing.

**SECTION 3.08. Investment Company Status.** No Loan Party nor any of its Subsidiaries is an "investment company" as defined in, or subject to regulation under, the Investment Company Act of 1940.

**SECTION 3.09. Taxes.** Each Loan Party and its Subsidiaries has timely filed or caused to be filed all Tax returns and reports required to have been filed by it and has paid or caused to be paid all Taxes required to have been paid by it as shown thereon, except (a) Taxes that are being contested in good faith by appropriate proceedings and for which such Loan Party or such Subsidiary, as applicable, has set aside on its books adequate reserves or (b) to the extent that the failure to do so could not be expected to result in a Material Adverse Effect. No material tax liens have been filed and no material claims are being asserted with respect to any such taxes.

**SECTION 3.10. ERISA.** No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other such ERISA Events for which liability is reasonably expected to occur, could reasonably be expected to result in a Material Adverse Effect.

**SECTION 3.11. Disclosure.** As of the date hereof, Holdings and the Borrower have disclosed to the Lenders or in their filings with the Securities and Exchange Commission and available on their website, all agreements, instruments and corporate or other restrictions to which it or any Subsidiary is subject, and all other matters known to it, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect. Neither the Information Memorandum nor any of the other reports, financial statements, certificates or other information furnished by or on behalf of the any Loan Party to the Administrative Agent or any Lender in connection with the negotiation of this Agreement or any other Loan Document (as modified or supplemented by other information so furnished and considered as a whole) contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that, with respect to projected financial information, the Borrower and Holdings represent only that such information was prepared in good

SECTION 3.12. Material Agreements. No Loan Party is in default in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any agreement to which it is a party which could reasonably be expected to result in a Material Adverse Effect.

SECTION 3.13. Solvency. (a) Immediately after the consummation of the Transactions to occur on the Effective Date, (i) the fair value of the assets of each Loan Party, at a fair valuation, will exceed its debts and liabilities, subordinated, contingent or otherwise; (ii) the present fair saleable value of the property of each Loan Party will be greater than the amount that will be required to pay the probable liability of its debts and other liabilities, subordinated, contingent or otherwise, as such debts and other liabilities become absolute and matured; (iii) each Loan Party will be able to pay its debts and liabilities, subordinated, contingent or otherwise, as such debts and liabilities become absolute and matured; and (iv) each Loan Party will not have unreasonably small capital with which to conduct the business in which it is engaged as such business is now conducted and is proposed to be conducted after the Effective Date.

(b) No Loan Party intends to, or will permit any of its Subsidiaries to, and no Loan Party believes that it or any of its Subsidiaries will, incur debts beyond its ability to pay such debts as they mature, taking into account the timing of and amounts of cash to be received by it or any such Subsidiary and the timing of the amounts of cash to be payable on or in respect of its Indebtedness or the Indebtedness of any such Subsidiary.

SECTION 3.14. Insurance. Schedule 3.14 sets forth a description of all insurance maintained by or on behalf of the Loan Parties and the Subsidiaries as of the Effective Date. As of the Effective Date, all premiums in respect of such insurance have been paid. The Borrower and Holdings believe that the insurance maintained by or on behalf of the Borrower and the Subsidiaries is adequate.

SECTION 3.15. Capitalization and Subsidiaries. Schedule 3.15 sets forth (a) a correct and complete list of the name and relationship to the Borrower of each and all of the Borrower's Subsidiaries, (b) a true and complete listing of each class of each of the Borrower's authorized Equity Interests, of which all of such issued shares are validly issued, outstanding, fully paid and non-assessable, and owned beneficially and of record by the Persons identified on Schedule 3.15, and (c) the type of entity of the Borrower and each of its Subsidiaries. All of the issued and outstanding Equity Interests owned by any Loan Party has been (to the extent such concepts are relevant with respect to such ownership interests) duly authorized and issued and is fully paid and non assessable.

SECTION 3.16. No Burdensome Restrictions. No Loan Party is a party to any agreement or instrument or subject to any corporate restriction that has resulted or could reasonably be expected to result in a Material Adverse Effect.

SECTION 3.17. Federal Reserve Regulations. None of Holdings, the Borrower or any of the Subsidiaries is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying Margin Stock. No part of the proceeds of any Loan have been used or will be used, whether directly or indirectly, for any purpose that entails a violation of any of the Regulations of the Board, including Regulations T, U and X.

SECTION 3.18. Security Interest in Collateral. The provisions of this Agreement and the other Loan Documents create legal and valid Liens on all the Collateral in favor of the Administrative Agent, for the benefit of the Administrative Agent and the Lenders, and upon the filing of required financing statements by the Administrative Agent, such Liens constitute perfected and continuing Liens on the Collateral, securing the Secured Obligations, enforceable against the applicable Loan Party and all third parties, and having priority over all other Liens on the Collateral except in the case of (a) Permitted

Encumbrances, to the extent any such Permitted Encumbrances would have priority over the Liens in favor of the Administrative Agent pursuant to any applicable law and (b) Liens perfected only by possession (including possession of any certificate of title) to the extent the Administrative Agent has not obtained or does not maintain possession of such Collateral.

SECTION 3.19. Employment Matters. As of the Effective Date, there are no strikes, lockouts or slowdowns against any Loan Party or any Subsidiary pending or, to the knowledge of the Borrower, threatened. The hours worked by and payments made to employees of the Loan Parties and the Subsidiaries have not been in violation of the Fair Labor Standards Act or any other applicable Federal, state, local or foreign law dealing with such matters except where such violation could not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect. All material payments due from any Loan Party or any Subsidiary, or for which any claim may be made against any Loan Party or any Subsidiary, on account of wages and employee health and welfare insurance and other benefits, have been paid or accrued as a liability on the books of the Loan Party or such Subsidiary.

SECTION 3.20. Common Enterprise. The successful operation and condition of each of the Loan Parties is dependent on the continued successful performance of the functions of the group of the Loan Parties as a whole and the successful operation of each of the Loan Parties is dependent on the successful performance and operation of each other Loan Party. Each Loan Party expects to derive benefit (and its board of directors or other governing body has determined that it may reasonably be expected to derive benefit), directly and indirectly, from (i) successful operations of each of the other Loan Parties and (ii) the credit extended by the Lenders to the Borrower hereunder, both in their separate capacities and as members of the group of companies. Each Loan Party has determined that execution, delivery, and performance of this Agreement and any other Loan Documents to be executed by such Loan Party is within its purpose, will be of direct and indirect benefit to such Loan Party, and is in its best interest.

SECTION 3.21. Credit Card Processors. As of the Effective Date, Schedule 3.21 lists all Credit Card Processors that provide any Loan Party with credit card processing services, and such Schedule correctly identifies the name and address of each Credit Card Processor, and the name in which such services are provided. True and complete copies of each agreement listed on Schedule 3.21 have been delivered to the Administrative Agent, together with all amendments, waivers and other modifications thereto. All such agreements are valid, subsisting, in full force and effect, are currently binding upon each Loan Party that is a party thereto and binding upon the other parties thereto in accordance with their terms. The Loan Parties are in compliance in all material respects under such agreements.

#### ARTICLE IV

##### Conditions

SECTION 4.01. Effective Date. The obligations of the Lenders to make Loans and of the Issuing Bank to issue Letters of Credit hereunder shall not become effective until the date on which each of the following conditions is satisfied (or waived in accordance with Section 9.02):

(a) Credit Agreement and Loan Documents. The Administrative Agent (or its counsel) shall have received (i) from each party hereto either (A) a counterpart of this Agreement signed on behalf of such party or (B) written evidence satisfactory to the Administrative Agent (which may include facsimile or electronic transmission of a signed signature page of this Agreement) that such party has signed a counterpart of this Agreement and (ii) duly executed copies of the Loan Documents and such other certificates, documents, instruments and agreements as the Administrative



Agent shall reasonably request in connection with the transactions contemplated by this Agreement and the other Loan Documents, including any promissory notes requested by a Lender pursuant to Section 2.10 payable to the order of each such requesting Lender and written opinions of the Loan Parties' counsels, addressed to the Administrative Agent, the Issuing Bank and the Lenders in substantially the form of Exhibit B, all in form and substance satisfactory to the Administrative Agent and its counsel and as further described in the list of closing documents attached as Exhibit E.

(b) Financial Statements and Projections. The Lenders shall have received (i) satisfactory audited consolidated financial statements of Holdings and the Borrower for the 2007 and 2008 fiscal years, (ii) satisfactory unaudited interim consolidated financial statements of Holdings and the Borrower for each fiscal quarterly period ended after the date of the latest applicable financial statements delivered pursuant to clause (i) of this paragraph and (iii) the Borrower's most recent projected income statement, balance sheet and cash flows, prepared on a quarterly basis for the 2009 and 2010 fiscal years and on an annual basis for the 2011 and 2012 fiscal years (including, without limitation, a reasonably detailed description of the assumptions used in preparing such projections), all in form and detail reasonably satisfactory to the Administrative Agent.

(c) Closing Certificates; Certified Certificate of Incorporation; Good Standing Certificates. The Administrative Agent shall have received (i) a certificate of each Loan Party, dated the Effective Date and executed by its Secretary or Assistant Secretary, which shall (A) certify the resolutions of its Board of Directors, members or other body authorizing the execution, delivery and performance of the Loan Documents to which it is a party, (B) identify by name and title and bear the signatures of the Financial Officers and any other officers of such Loan Party authorized to sign the Loan Documents to which it is a party, and (C) contain appropriate attachments, including the certificate or articles of incorporation or organization of each Loan Party certified by the relevant authority of the jurisdiction of organization of such Loan Party and a true and correct copy of its by laws or operating, management or partnership agreement, and (ii) a good standing certificate for each Loan Party from its jurisdiction of organization.

(d) No Default Certificate. The Administrative Agent shall have received a certificate, signed by the chief financial officer of Holdings, on the initial Borrowing date (i) stating that no Default has occurred and is continuing, (ii) stating that the representations and warranties contained in Article III are true and correct as of such date, and (iii) certifying any other factual matters as may be reasonably requested by the Administrative Agent.

(e) Fees. The Lenders and the Administrative Agent shall have received all fees required to be paid, and all reasonable expenses for which reasonably detailed invoices have been presented (including the reasonable fees and expenses of legal counsel), on or before the Effective Date.

(f) Lien Searches. The Administrative Agent shall have received the results of a recent lien search in each of the jurisdictions where the Loan Parties are located, and such search shall reveal no liens on any of the assets of the Loan Parties except for liens permitted by Section 6.02 or discharged on or prior to the Effective Date pursuant to a pay-off letter or other documentation satisfactory to the Administrative Agent.

(g) Pay-Off Letter. Unless the same has previously been terminated, the Administrative Agent shall have received satisfactory pay-off letter for the Existing Credit Agreement, confirming that all Liens upon any of the property of the Loan Parties constituting Collateral will be terminated concurrently with such payment and all letters of credit (other than the Existing Letters of Credit) issued or guaranteed as part of such Existing Credit Agreement shall have been cash

collateralized or supported by a Letter of Credit or otherwise satisfied in a manner satisfactory to the Administrative Agent.

(h) Funding Account. The Administrative Agent shall have received a notice setting forth the deposit account of the Borrower (the "Funding Account") to which the Administrative Agent is authorized by the Borrower to transfer the proceeds of any Borrowings requested or authorized pursuant to this Agreement.

(i) Solvency. The Administrative Agent shall have received a solvency certificate from the chief financial officer of the Borrower in form and substance satisfactory to the Administrative Agent.

(j) Borrowing Base Certificate. The Administrative Agent shall have received a Borrowing Base Certificate which calculates the Borrowing Base as of the end of the calendar quarter immediately preceding the Effective Date.

(k) Closing Availability. After giving effect to all Borrowings to be made on the Effective Date and the issuance of any Letters of Credit on the Effective Date and payment of all fees and expenses due hereunder, and with all of the Loan Parties' indebtedness, liabilities, and obligations current, Availability shall not be less than \$25,000,000.

(l) Pledged Stock; Stock Powers; Pledged Notes. The Administrative Agent shall have received (i) the certificates representing the shares of Equity Interests pledged pursuant to the Security Agreement, together with an undated stock power for each such certificate executed in blank by a duly authorized officer of the pledgor thereof and (ii) each promissory note (if any) pledged to the Administrative Agent pursuant to the Security Agreement endorsed (without recourse) in blank (or accompanied by an executed transfer form in blank) by the pledgor thereof.

(m) Filings, Registrations and Recordings. Each document (including any UCC financing statement) required by the Collateral Documents or under law or reasonably requested by the Administrative Agent to be filed, registered or recorded in order to create in favor of the Administrative Agent, for the benefit of the Secured Parties, a perfected Lien on the Collateral described therein and being provided on the Effective Date, prior and superior in right to any other Person (other than with respect to Liens expressly permitted by Section 6.02), shall be in proper form for filing, registration or recordation.

(n) Insurance. The Administrative Agent shall have received evidence of insurance coverage in form, scope, and substance reasonably satisfactory to the Administrative Agent and otherwise in compliance with the terms of Section 5.09 and Section 4.12 of the Security Agreement.

(o) Letter of Credit Application. The Administrative Agent shall have received a properly completed letter of credit application if the issuance of a Letter of Credit will be required on the Effective Date.

(p) Other Documents. The Administrative Agent shall have received such other documents and information as the Administrative Agent, the Issuing Bank, any Lender or their respective counsel may have reasonably requested.

The Administrative Agent shall notify the Borrower and the Lenders of the Effective Date, and such notice shall be conclusive and binding. Notwithstanding the foregoing, the obligations of the Lenders to make Loans and of the Issuing Bank to issue Letters of Credit hereunder shall not become effective unless

each of the foregoing conditions is satisfied (or waived pursuant to Section 9.02) at or prior to 3:00 p.m., New York City time, on May 29, 2009 (and, in the event such conditions are not so satisfied or waived, the Commitments shall terminate at such time).

SECTION 4.02. Each Credit Event The obligation of each Lender to make a Loan on the occasion of any Borrowing, and of the Issuing Bank to issue, amend, renew or extend any Letter of Credit, is subject to the satisfaction of the following conditions:

(a) The representations and warranties of the Borrower set forth in this Agreement shall be true and correct on and as of the date of such Borrowing or the date of issuance, amendment, renewal or extension of such Letter of Credit, as applicable.

(b) At the time of and immediately after giving effect to such Borrowing or the issuance, amendment, renewal or extension of such Letter of Credit, as applicable, no Default shall have occurred and be continuing.

(c) After giving effect to any Borrowing or the issuance of any Letter of Credit, Availability is not less than zero.

Each Borrowing and each issuance, amendment, renewal or extension of a Letter of Credit shall be deemed to constitute a representation and warranty by the Borrower on the date thereof as to the matters specified in paragraphs (a), (b) and (c) of this Section.

Notwithstanding the failure to satisfy the conditions precedent set forth in paragraphs (a) or (b) of this Section, unless otherwise directed by the Required Lenders, the Administrative Agent may, but shall have no obligation to, continue to make Loans and an Issuing Bank may, but shall have no obligation to, issue or cause to be issued any Letter of Credit for the ratable account and risk of Lenders from time to time if the Administrative Agent believes that making such Loans or issuing or causing to be issued any such Letter of Credit is in the best interests of the Lenders.

## ARTICLE V

### Affirmative Covenants

Until the Commitments have expired or been terminated and the principal of and interest on each Loan and all fees payable hereunder shall have been paid in full and all Letters of Credit shall have expired or terminated and all LC Disbursements shall have been reimbursed, each Loan Party executing this Agreement covenants and agrees, jointly and severally with all of the Loan Parties, with the Lenders that:

SECTION 5.01. Financial Statements; Borrowing Base and Other Information The Borrower will furnish to the Administrative Agent and each Lender:

(a) within ninety (90) days after the end of each fiscal year of Holdings, its audited consolidated and consolidating balance sheets and related consolidated and consolidating statements of operations and consolidated statements of shareholders' equity and cash flows as of the end of and for such year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on by KPMG LLP or other independent public accountants of recognized national standing (without a "going concern" or like qualification or exception and without any qualification or exception as to the scope of such audit) to the effect that such consolidated financial statements present fairly in all material respects the financial condition and results of operations of Holdings and its

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consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied, accompanied by any management letter prepared by said accountants;

(b) within forty-five (45) days after the end of each of the first three fiscal quarters of each fiscal year of Holdings, its consolidated and consolidating balance sheets and related consolidated and consolidating statements of operations and consolidated statements of shareholders' equity and cash flows as of the end of and for such fiscal quarter and the then elapsed portion of the fiscal year, setting forth in each case in comparative form the figures for the corresponding period or periods of (or, in the case of the balance sheet, as of the end of) the previous fiscal year, all certified by one of its Financial Officers as presenting fairly in all material respects the financial condition and results of operations of Holdings and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments and the absence of footnotes;

(c) if and so long as the Availability Trigger is in effect, within twenty (20) days after the end of each calendar month, Holdings' consolidated and consolidating balance sheets and related consolidated and consolidating statements of operations and consolidated statements of shareholders' equity and cash flows as of the end of and for such calendar month and the then elapsed portion of the fiscal year, setting forth in each case in comparative form the figures for the corresponding period or periods of (or, in the case of the balance sheet, as of the end of) the previous fiscal year, all certified by one of its Financial Officers as presenting fairly in all material respects the financial condition and results of operations of Holdings and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments and the absence of footnotes;

(d) concurrently with any delivery of financial statements under clause (a) or (b) above, a certificate of a Financial Officer of the Borrower in substantially the form of Exhibit D (i) certifying, in the case of the financial statements delivered under clause (b), as presenting fairly in all material respects the financial condition and results of operations of the Borrower and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments and the absence of footnotes, (ii) certifying as to whether a Default has occurred and, if a Default has occurred, specifying the details thereof and any action taken or proposed to be taken with respect thereto, (iii) setting forth reasonably detailed calculations demonstrating compliance with Section 6.12 and (iv) to the extent not discussed in the footnotes to financial statements delivered pursuant to clauses (a) and (b) above, stating whether any change in GAAP or in the application thereof has occurred since the date of the audited financial statements referred to in Section 3.04 and, if any such change has occurred, specifying the effect of such change on the financial statements accompanying such certificate;

(e) concurrently with any delivery of financial statements under clause (a) above, a certificate of the accounting firm that reported on such financial statements stating whether they obtained knowledge during the course of their examination of such financial statements of any Default (which certificate may be limited to the extent required by accounting rules or guidelines);

(f) as soon as available, but in any event not more than thirty (30) days prior to the end of each fiscal year of the Holdings, a copy of the plan and forecast (including a projected consolidated balance sheet, income statement and funds flow statement) of Holdings for each quarter of the upcoming fiscal year (the "Projections") in form reasonably satisfactory to the Administrative Agent;

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(g) as soon as available but in any event within twenty (20) days after the end of each fiscal quarter of each fiscal year of Holdings ((or within twenty (20) days of the end of each calendar month if and so long as the Monthly Reporting Trigger is in effect) (or within four (4) days of the end of each calendar week if and so long as the Availability Trigger is in effect)), and at such other times as may be requested by the Administrative Agent upon at least four (4) days' prior notice to the Borrower, as of the period then ended, a Borrowing Base Certificate and supporting information in connection therewith (including, in respect of any Borrowing Base Certificate

delivered for a month which is also the end of any fiscal quarter of Holdings, a calculation of Average Quarterly Availability for such quarter then ended and an indication of what the Applicable Rate is as a result of such Average Quarterly Availability), together with any additional reports with respect to the Borrowing Base as the Administrative Agent may reasonably request; provided that if, at the time the Lenders make any Loan to the Borrower hereunder and the Borrower shall not have delivered a Borrowing Base Certificate within the preceding twenty (20) days, the Borrower shall deliver a Borrowing Base Certificate to the Administrative Agent as soon as available but in any event within ten (10) days of the funding of such Loan, which Borrowing Base Certificate shall set forth the Borrowing Base as of the last day of the calendar month most recently ended;

(h) as soon as available but in any event within twenty (20) days after the end of each fiscal quarter of each fiscal year of Holdings ((or within twenty (20) days of the end of each calendar month if and so long as the Monthly Reporting Trigger is in effect) (or within four (4) days of the end of each calendar week if and so long as the Availability Trigger is in effect)), and at such other times as may be requested by the Administrative Agent upon at least four (4) days' prior notice to the Borrower, as of the period then ended, all delivered electronically in a text formatted file acceptable to the Administrative Agent:

(i) a detailed aging of the each Loan Party's Accounts (but only a detailed schedule in the case of Credit Card Account Receivables) (1) including all invoices aged by invoice date and due date (with an explanation of the terms offered if not then standard) and (2) reconciled to the Borrowing Base Certificate delivered as of such date prepared in a manner reasonably acceptable to the Administrative Agent, together with a summary specifying the name, address, and balance due for each Account Debtor;

(ii) a schedule detailing each Loan Party's Inventory, in form satisfactory to the Administrative Agent, (1) by location (showing Inventory in transit, any Inventory located with a third party under any consignment, bailee arrangement, or warehouse agreement), by class (raw material, work-in-process and finished goods), by product type, and by volume on hand, which Inventory shall be valued at the lower of cost (determined on a first-in, first-out basis) or market and adjusted for Reserves as the Administrative Agent has previously indicated to the Borrower are deemed by the Administrative Agent to be appropriate, (2) including a report of any variances or other results of Inventory counts performed by such Loan Party since the last Inventory schedule (including information regarding sales or other reductions, additions, returns, credits issued by such Loan Party and complaints and claims made against such Loan Party which in the aggregate exceed \$100,000 in such month), and (3) reconciled to the Borrowing Base Certificate delivered as of such date;

(iii) a worksheet of calculations prepared by each Loan Party to determine Eligible Accounts, Eligible Credit Card Account Receivables and Eligible Inventory, such worksheets detailing the Accounts, Credit Card Account Receivables and Inventory excluded from Eligible Accounts, Eligible Credit Card Account Receivables and Eligible Inventory and the reason for such exclusion;

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(iv) a reconciliation of each Loan Party's Accounts, Credit Card Account Receivables and Inventory between the amounts shown in such Loan Party's general ledger and financial statements and the reports delivered pursuant to clauses (i) and (ii) above; and

(v) a reconciliation of the loan balance per each Loan Party's general ledger to the loan balance under this Agreement;

(i) as soon as available but in any event within twenty (20) days after the end of each fiscal quarter of each fiscal year of Holdings ((or within twenty (20) days of the end of each calendar month if and so long as the Monthly Reporting Trigger is in effect) (or within four (4) days of the end of each calendar week if and so long as the Availability Trigger is in effect)), and at such other times as may be requested by the Administrative Agent upon at least four (4) days' prior notice to the Borrower, as of the fiscal quarter (or month or week, if applicable) then ended, a detailed schedule of each Loan Party's accounts payable, delivered electronically in a text formatted file acceptable to the Administrative Agent;

(j) promptly upon the Administrative Agent's request:

(i) copies of invoices in connection with the invoices issued by each Loan Party in connection with any Accounts (including, without limitation, Credit Card Account Receivables), credit memos, shipping and delivery documents, and other information related thereto;

(ii) copies of purchase orders, invoices, and shipping and delivery documents in connection with any Inventory or Equipment purchased by any Loan Party; and

(iii) a schedule detailing the balance of all intercompany accounts of the Loan Parties;

(k) to the extent requested by the Administrative Agent, copies of all tax returns filed by any Loan Party with the U.S. Internal Revenue Service;

(l) promptly after the same become publicly available, copies of all periodic and other reports, proxy statements and other materials filed by Holdings, the Borrower or any Subsidiary with the Securities and Exchange Commission, or any Governmental Authority succeeding to any or all of the functions of said Commission, or with any national securities exchange, or distributed by Holdings or the Borrower to its shareholders generally, as the case may be; and

(m) promptly following any request therefor, such other information regarding the operations, business affairs and financial condition of Holdings, the Borrower or any Subsidiary, or compliance with the terms of this Agreement, as the Administrative Agent or any Lender may reasonably request.

Documents required to be delivered pursuant to clauses (a) and (b) of this Section 5.01 may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date on which such documents (i) shall have been posted by the Administrative Agent on IntraLinks or similar site to which the Lenders have been granted access or (ii) shall be available on the website of the Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov), provided that Holdings shall have delivered a notice to the Administrative Agent that such information is so available. Information required to be delivered pursuant to this Section may be delivered by electronic communications pursuant to procedures approved by the Administrative Agent. Notwithstanding anything contained herein, in every instance the Borrower shall

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be required to provide copies of the compliance certificates required by clause (d) of this Section 5.01 to the Administrative Agent.

SECTION 5.02. Notices of Material Events. The Borrower and Holdings will furnish to the Administrative Agent and each Lender prompt written notice of the following:

(a) the occurrence of any Default;

(b) receipt of any notice of any governmental investigation or any litigation or proceeding commenced or threatened against any Loan Party that (i) seeks damages in excess of \$10,000,000, (ii) seeks injunctive relief, (iii) is asserted or instituted against any Plan, its fiduciaries or its assets, (iv) alleges criminal misconduct by any Loan Party, (v) alleges the violation of any law regarding, or seeks remedies in connection with, any Environmental Laws, that could reasonably be expected to result in liabilities in excess of \$10,000,000 (vi) contests any tax, fee, assessment, or other governmental charge in excess of \$10,000,000, or (vii) involves any product recall;

(c) any Lien (other than Permitted Encumbrances) or claim made or asserted against any of the Collateral;

(d) any and all default notices received under or with respect to any leased location or public warehouse where Collateral (with a book value in excess of \$10,000,000) is located (which shall be delivered within five (5) Business Days after receipt thereof);

(e) the occurrence of any ERISA Event that, alone or together with any other ERISA Events that have occurred, could reasonably be expected to result in a Material Adverse Effect; and

(f) any other development that results in, or could reasonably be expected to result in, a Material Adverse Effect.

Each notice delivered under this Section shall be accompanied by a statement of a Financial Officer or other executive officer of Holdings setting forth the details of the event or development requiring such notice and any action taken or proposed to be taken with respect thereto.

**SECTION 5.03. Existence; Conduct of Business.** Each Loan Party will, and will cause each Subsidiary (other than Excluded Subsidiaries) to, (a) do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence and the rights, qualifications, licenses, permits, privileges, franchises, governmental authorizations and intellectual property rights material to the conduct of its business, and maintain all requisite authority to conduct its business in each jurisdiction in which its business is conducted except where failure to be so qualified could not reasonably be expected to have a Material Adverse Effect; provided that the foregoing shall not prohibit any merger, consolidation, liquidation or dissolution permitted under Section 6.03 and (b) carry on and conduct its business in substantially the same manner and in substantially the same fields of enterprise as it is presently conducted.

**SECTION 5.04. Payment of Obligations.** Each Loan Party will, and will cause each Subsidiary to, pay or discharge all Material Indebtedness and all other material liabilities and obligations, including Taxes, before the same shall become delinquent or in default, except where (a) the validity or amount thereof is being contested in good faith by appropriate proceedings, (b) such Loan Party or such Subsidiary has set aside on its books adequate reserves with respect thereto in accordance with GAAP and (c) the failure to make payment pending such contest could not reasonably be expected to result in a Material Adverse Effect.

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**SECTION 5.05. Maintenance of Properties.** Each Loan Party will, and will cause each Subsidiary to, keep and maintain all property material to the conduct of its business in good working order and condition, ordinary wear and tear excepted.

**SECTION 5.06. Books and Records; Inspection Rights.** Without limiting Sections 5.11 or 5.12 hereof, each Loan Party will, and will cause each Subsidiary to, maintain all financial records in accordance with GAAP and permit any representatives designated by any Lender, upon reasonable prior notice (except that no prior notice shall be required if an Event of Default has occurred and is continuing) to visit and inspect the financial records and the properties of Holdings, the Borrower or any Subsidiary at reasonable times (during normal business hours) and as often as requested and to make extracts from and copies of such financial records, and permit any representatives designated by any Lender to discuss the affairs, finances and condition of Holdings, the Borrower or any Subsidiary with the officers thereof and independent accountants therefor; provided that any such visitation and inspection rights shall be exercised in a reasonable manner that does not disrupt the business activities of Holdings, the Borrower and its Subsidiaries. The Loan Parties acknowledge that the Administrative Agent, after exercising its rights of inspection, may prepare and distribute to the Lenders certain Reports pertaining to the Loan Parties' assets for internal use by the Administrative Agent and the Lenders.

**SECTION 5.07. Compliance with Laws.** Each Loan Party will, and will cause each Subsidiary to, comply with all Requirements of Law applicable to it or its property, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

**SECTION 5.08. Use of Proceeds.** The proceeds of the Loans will be used only for general corporate purposes of the Borrower and its Subsidiaries in the ordinary course of business. No part of the proceeds of any Loan and no Letter of Credit will be used, whether directly or indirectly, for any purpose that entails a violation of any of the Regulations of the Board, including Regulations T, U and X.

**SECTION 5.09. Insurance.** Each Loan Party will, and will cause each Subsidiary to, maintain with financially sound and reputable carriers having a financial strength rating of at least A- by A.M. Best Company (a) insurance in such amounts (with no greater risk retention) and against such risks (including loss or damage by fire and loss in transit; theft, burglary, pilferage, larceny, embezzlement, and other criminal activities; business interruption; and general liability) and such other hazards, as is customarily maintained by companies of established repute engaged in the same or similar businesses operating in the same or similar locations and (b) all insurance required pursuant to the Collateral Documents. The Borrower will furnish to the Lenders, upon request of the Administrative Agent, information in reasonable detail as to the insurance so maintained.

**SECTION 5.10. Casualty and Condemnation.** The Borrower (a) will furnish to the Administrative Agent and the Lenders prompt written notice of any casualty or other insured damage to any material portion of the Collateral or the commencement of any action or proceeding for the taking of any material portion of the Collateral or interest therein under power of eminent domain or by condemnation or similar proceeding and (b) will ensure that the Net Proceeds of any such event (whether in the form of insurance proceeds, condemnation awards or otherwise) are collected and applied in accordance with the applicable provisions of this Agreement and the Collateral Documents.

**SECTION 5.11. Appraisals.** At any time that the Administrative Agent requests, the Loan Parties will provide the Administrative Agent with appraisals or updates thereof of their Inventory from an appraiser selected and engaged by the Administrative Agent, and prepared on a basis satisfactory to the Administrative Agent, such appraisals and updates to include, without limitation, information

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required by applicable law and regulations. It is anticipated that up to three (3) appraisals per year will be conducted provided that (i) no more than one (1) appraisal per year will be conducted unless the Administrative Agent elects to conduct a second appraisal in its sole discretion, (ii) no more than three (3) appraisals per year will be conducted if any Loans are outstanding, and average monthly Availability is less than an amount equal to the greater of (x) 20% of the Aggregate Commitment and (y) \$10,000,000 at such time, and (iii) there shall be no limitation on the number or frequency of appraisals if an Event of Default shall have occurred and be continuing. For purposes of this Section 5.11, it is understood and agreed that a single Inventory appraisal may consist of examinations conducted at multiple relevant sites and involve one or more relevant Loan Parties and their assets. All such appraisals shall be at the sole expense of the Loan Parties.

**SECTION 5.12. Field Examinations.** At any time that the Administrative Agent requests, the Loan Parties will permit, upon reasonable notice, the Administrative Agent to conduct a field examination to ensure adequacy of Collateral included in the Borrowing Base and related reporting and control systems. It is anticipated that up to three (3) field examinations per year will be conducted; provided that (i) no more than one (1) field examination per year will be conducted unless the Administrative Agent elects to conduct a second field examination in its sole discretion, (ii) no more than three (3) field examinations per year will be conducted if any Loans are outstanding, and average monthly Availability is less than an amount equal to the greater of (x) 20% of the Aggregate Commitment and (y) \$10,000,000, at such time, and (iii) there shall be no limitation on the number or frequency of field examinations if an Event of Default shall have occurred and be continuing. For purposes of this Section 5.12, it is understood and agreed that a single field examination may consist of examinations conducted at multiple relevant sites and involve one or more relevant

Loan Parties and their assets. All such field examinations shall be at the sole expense of the Loan Parties.

SECTION 5.13. [Intentionally Omitted].

SECTION 5.14. Credit Card Processors. Each Loan Party will (a) comply in all material respects with all obligations of such Loan Party under each credit card processing agreement to which such Loan Party is a party, (b) maintain each credit card processing agreement set forth on Schedule 3.21 and each credit card processing agreement entered into after the Effective Date in full force and effect (except to the extent such Loan Party elects to terminate the same and so notifies the Administrative Agent) and take or cause to be taken all actions necessary to maintain, preserve and protect the rights and interests of the Administrative Agent in all material respects with respect to all such agreements, (c) use commercially reasonable efforts to obtain a Processor Control Agreement with respect to each Credit Card Processor providing any credit card processing services for or on behalf of such Loan Party and listed on Schedule 3.21 within sixty (60) days after the Effective Date and (d) promptly notify the Administrative Agent of the entry by such Loan Party into any credit card processing agreement with any Credit Card Processor after the Effective Date and (subject to Section 5.15(e) with respect to any credit card processing agreement acquired by such Loan Party in connection with the consummation of a Permitted Acquisition) obtain a Processor Control Agreement with respect to each such Credit Card Processor contemporaneously with the entry by such Loan Party into such credit processing agreement.

SECTION 5.15. Additional Collateral; Further Assurances. (a) Holdings shall cause each of its Material Domestic Subsidiaries formed or acquired after the Effective Date, and each Domestic Subsidiary which is not a Material Domestic Subsidiary on the Effective Date but which qualifies as a Material Domestic Subsidiary after the Effective Date, in accordance with the terms of this Agreement to become a Loan Party by executing the Joinder Agreement set forth as Exhibit E hereto (the "Joinder Agreement") within thirty (30) days (or such later date as may be agreed upon by the Administrative Agent) of such formation, acquisition or qualification, such Joinder Agreement to be accompanied by appropriate corporate resolutions, other corporate organizational and authorization

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documentation and legal opinions in form and substance reasonably satisfactory to the Administrative Agent. Upon execution and delivery thereof, each such Person (i) shall automatically become a Loan Guarantor hereunder and thereupon shall have all of the rights, benefits, duties, and obligations in such capacity under the Loan Documents and (ii) will grant Liens to the Administrative Agent, for the benefit of the Secured Parties, in any property of such Loan Party which constitutes Collateral.

(b) Without limiting the generality of the foregoing, Holdings will cause the Applicable Pledge Percentage of the issued and outstanding Equity Interests of each Pledge Subsidiary directly owned by Holdings or any other Loan Party to be subject at all times to a first priority, perfected Lien in favor of the Administrative Agent, for the benefit of the Administrative Agent and the Lenders, to secure the Secured Obligations in accordance with the terms and conditions of the Collateral Documents or such other security documents as the Administrative Agent shall reasonably request. Notwithstanding the foregoing, no such pledge agreement in respect of the Equity Interests of a Foreign Subsidiary shall be required hereunder (i) (A) until the date that is sixty (60) days immediately following the Effective Date (or such later date as may be agreed upon by the Administrative Agent) in the case of Material Foreign Subsidiaries in existence on the Effective Date and (B) within sixty (60) days (or such later date as may be agreed upon by the Administrative Agent) in the case of a Material Foreign Subsidiary formed or acquired, or a Foreign Subsidiary otherwise qualifying as a Material Foreign Subsidiary, after the Effective Date and (ii) to the extent the Administrative Agent or its counsel determines that, in light of the cost and expense associated therewith, such pledge would not provide material credit support for the benefit of the Secured Parties pursuant to legally valid, binding and enforceable pledge agreements.

(c) Without limiting the foregoing, each Loan Party will, and will cause each Subsidiary to, execute and deliver, or cause to be executed and delivered, to the Administrative Agent such documents, agreements and instruments (including, without limitation, the making of commercially reasonable efforts in respect of deposit account control agreements and securities account control agreements), and will take or cause to be taken such further actions (including the filing and recording of financing statements and other documents and such other actions or deliveries of the type required by Section 4.01, as applicable), which may be required by law or which the Administrative Agent may, from time to time, reasonably request to carry out the terms and conditions of this Agreement and the other Loan Documents and to ensure perfection and priority of the Liens created or intended to be created by the Collateral Documents, all in form and substance reasonably satisfactory to the Administrative Agent and all at the expense of the Loan Parties.

(d) If any material assets (other than Excluded Assets) are acquired by any Loan Party after the Effective Date (other than assets constituting Collateral under the Security Agreement that become subject to the Lien in favor of the Administrative Agent upon acquisition thereof), the Borrower will notify the Administrative Agent and the Lenders thereof, and, if requested by the Administrative Agent or the Required Lenders, the Borrower will cause such assets to be subjected to a Lien securing the Secured Obligations and will take, and cause the Loan Parties to take, such actions as shall be necessary or reasonably requested by the Administrative Agent to grant and perfect such Liens, including actions described in paragraph (c) of this Section, all at the expense of the Loan Parties.

(e) Each Loan Party will use commercially reasonable efforts to obtain a Processor Control Agreement with respect to each Credit Card Processor party to a credit card processing agreement acquired by any Loan Party in connection with the consummation of any Permitted Acquisition, within sixty (60) days after the consummation of such Permitted Acquisition.

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(f) On or prior to the Effective Date, each Loan Party shall deliver to the Administrative Agent executed signature pages and exhibits to Confirmatory Grants of Security Interest with respect to its patents, trademarks and copyrights to be held in escrow by the Administrative Agent until the occurrence of the IP Collateral Trigger Date. Upon the occurrence of the IP Collateral Trigger Date, each Loan Party acknowledges and agrees that (i) all signature pages, exhibits, documents, instruments and other deliveries provided to the Administrative Agent by such Loan Party to evidence a first priority security interest of the Administrative Agent in such Loan Party's patents, trademarks, and copyrights, shall be automatically and irrevocably released, (ii) the Administrative Agent shall be authorized to (A) date any such items the date of the IP Collateral Trigger Date, (B) attach the executed signature pages of such Loan Party thereto, and (C) make all filings and take any other actions contemplated thereby in connection with creating and perfecting the Administrative Agent's Lien on the patents, trademarks and copyrights of such Loan Party, and (iii) it shall promptly execute and deliver to the Administrative Agent a reaffirmation agreement, in form and substance satisfactory to the Administrative Agent, that reaffirms its obligations under the Loan Documents (including, without limitation, such Loan Party's grant to the Administrative Agent of a first priority security interest in all of such Loan Party's patents, trademarks and copyrights).

(g) If an agreement with respect to a joint venture (that is not a Subsidiary) entered into by a Loan Party otherwise permitted hereunder contains customary restrictions on the granting of Liens on its assets or Equity Interests of such joint venture, no Lien need be provided to the Administrative Agent to the extent that such Lien would not be permitted by the terms of the joint venture agreements.

ARTICLE VI

Negative Covenants

Until the Commitments have expired or terminated and the principal of and interest on each Loan and all fees, expenses and other amounts payable under any Loan Document have been paid in full and all Letters of Credit have expired or terminated and all LC Disbursements shall have been reimbursed, the Loan Parties covenant and agree, jointly and severally, with the Lenders that:

SECTION 6.01. Indebtedness. No Loan Party will, nor will it permit any Subsidiary to, create, incur or suffer to exist any Indebtedness, except:

- (a) the Secured Obligations;
- (b) Indebtedness existing on the date hereof and set forth in Schedule 6.01 and extensions, renewals and replacements of any such Indebtedness in accordance with clause (f) hereof;
- (c) Indebtedness of Holdings or the Borrower to any Subsidiary and of any Subsidiary to Holdings, the Borrower or any other Subsidiary; provided that (i) Indebtedness of any Subsidiary that is not a Loan Party to Holdings, the Borrower or any Subsidiary that is a Loan Party shall be subject to Section 6.04 and (ii) Indebtedness of Holdings or the Borrower to any Subsidiary and Indebtedness of any Subsidiary that is a Loan Party to any Subsidiary that is not a Loan Party shall be subordinated to the Secured Obligations on terms reasonably satisfactory to the Administrative Agent;
- (d) Guarantees by Holdings or the Borrower of Indebtedness or other obligations of any Subsidiary and by any Subsidiary of Indebtedness of the Borrower or any other Subsidiary; provided that (i) the Indebtedness so Guaranteed is permitted by this Section 6.01, (ii) Guarantees by Holdings, the Borrower or any Subsidiary that is a Loan Party of Indebtedness of any Subsidiary that

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is not a Loan Party shall be subject to Section 6.04 and (iii) Guarantees permitted under this clause (d) shall be subordinated to the Secured Obligations of the applicable Subsidiary on the same terms as the Indebtedness so Guaranteed is subordinated to the Secured Obligations;

(e) Indebtedness of the Borrower or any Subsidiary incurred to finance the acquisition, construction or improvement of any fixed or capital assets (whether or not constituting purchase money Indebtedness), including Capital Lease Obligations and any Indebtedness assumed in connection with the acquisition of any such assets or secured by a Lien on any such assets prior to the acquisition thereof, and extensions, renewals and replacements of any such Indebtedness in accordance with clause (f) hereof; provided that (i) such Indebtedness is incurred prior to or one hundred eighty (180) days after such acquisition or the completion of such construction or improvement and (ii) the aggregate principal amount of Indebtedness permitted by this clause (e) shall not exceed \$35,000,000 at any time outstanding;

(f) Indebtedness which represents an extension, refinancing, or renewal of any of the Indebtedness described in clauses (b), (e) and (i) hereof; provided that, (i) the principal amount of such Indebtedness is not increased, (ii) any Liens securing such Indebtedness are not extended to any additional property of any Loan Party, (iii) no Loan Party that is not originally obligated with respect to repayment of such Indebtedness is required to become obligated with respect thereto, (iv) such extension, refinancing or renewal does not result in a shortening of the average weighted maturity of the Indebtedness so extended, refinanced or renewed, (v) the material terms (taken as a whole) of any such extension, refinancing, or renewal are not less favorable to the obligor thereunder than the original terms of such Indebtedness and (iv) if the Indebtedness that is refinanced, renewed, or extended was subordinated in right of payment to the Secured Obligations, then the terms and conditions of the refinancing, renewal, or extension Indebtedness must include subordination terms and conditions that are at least as favorable to the Administrative Agent and the Lenders as those that were applicable to the refinanced, renewed, or extended Indebtedness;

(g) Indebtedness owed to any person providing workers' compensation, health, disability or other employee benefits or property, casualty or liability insurance, pursuant to reimbursement or indemnification obligations to such person, in each case incurred in the ordinary course of business;

(h) Indebtedness of the Borrower or any Subsidiary in respect of performance bonds, bid bonds, appeal bonds, surety bonds and similar obligations, in each case provided in the ordinary course of business;

(i) Indebtedness of any Person that becomes a Subsidiary after the date hereof; provided that (i) such Indebtedness exists at the time such Person becomes a Subsidiary and is not created in contemplation of or in connection with such Person becoming a Subsidiary and (ii) the aggregate principal amount of Indebtedness permitted by this clause (i) shall not exceed \$25,000,000 at any time outstanding;

(j) Indebtedness owed in respect of any overdrafts and related liabilities arising in the ordinary course of business from treasury, depository and cash management services or from any automated clearing-house transfers of funds;

(k) obligations under Swap Agreements permitted under this Agreement;

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(l) Indebtedness of Foreign Subsidiaries incurred for working capital purposes provided that the aggregate principal amount of Indebtedness permitted by this clause (l) shall not exceed \$10,000,000 at any time outstanding;

(m) Guarantees of obligations of independent licensed Ethan Allen dealers in an aggregate principal amount not exceeding \$5,000,000 at any time outstanding;

(n) Indebtedness under sale-leaseback transactions, and other financing arrangements, in respect of Real Property and in an aggregate principal amount not exceeding \$50,000,000 at any time outstanding; and

(o) other unsecured Indebtedness in an aggregate principal amount not exceeding \$100,000,000 at any time outstanding.

SECTION 6.02. Liens. No Loan Party will, nor will it permit any Subsidiary to, create, incur, assume or permit to exist any Lien on any property or asset now owned or hereafter acquired by it, or assign or sell any income or revenues (including accounts receivable) or rights in respect of any thereof, except:

(a) Liens created pursuant to any Loan Document;

(b) Permitted Encumbrances;

(c) any Lien on any property or asset of Holdings or any Subsidiary existing on the date hereof and set forth in Schedule 6.02; provided that (i) such Lien shall not apply to any other property or asset of Holdings or Subsidiary (other than additions thereto that become part thereof) and (ii) such Lien shall secure only those obligations which it secures on the date hereof and extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof;

(d) Liens on fixed or capital assets acquired, constructed or improved by Holdings or any Subsidiary; provided that (i) such security interests secure Indebtedness permitted by clause (e) of Section 6.01, (ii) such security interests and the Indebtedness secured thereby are incurred prior to or within one hundred eighty (180) days after such acquisition or the completion of such construction or improvement, (iii) the Indebtedness secured thereby does not exceed 90% of the cost of acquiring, constructing or improving such fixed or capital assets and (iv) such security interests shall not apply to any other property or assets of the Borrower or Subsidiary;

(e) any Lien existing on any property or asset (other than Accounts (including, without limitation, Credit Card Account Receivables) and Inventory) prior to the acquisition thereof by any Loan Party or any Subsidiary or existing on any property or asset (other than Accounts (including, without limitation, Credit Card Account Receivables) and Inventory) of any Person prior to the acquisition of such Person by any Loan Party or any Subsidiary; provided that (i) such Lien is not created in contemplation of or in connection with such acquisition, (ii) such Lien shall not apply to any other property or assets of a Loan Party and (iii) such Lien shall secure only those obligations which it secures on the date of such acquisition or the date such Person becomes a Loan Party, as the case may be and extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof;

(f) Liens of a collecting bank arising in the ordinary course of business under Section 4-208 of the Uniform Commercial Code in effect in the relevant jurisdiction covering only the items being collected upon;

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(g) Liens on Real Property arising out of sale and leaseback transactions, and other financing arrangements, permitted by Sections 6.01(n) and 6.06;

(h) customary rights and restrictions contained in agreements relating to a sale, transfer or other disposition applicable pending completion thereof and customary post-closing escrow and similar arrangements;

(i) in the case of any Subsidiary that is not a wholly-owned Subsidiary, any put, call, right of first refusal and similar arrangements, and customary transfer restrictions, set forth in its organizational documents or any related joint venture or similar agreement;

(j) leases, subleases, licenses and sublicenses of assets, in each case entered into by Holdings or any other Subsidiary in the ordinary course of business, that do not materially interfere with the conduct of the business of the Holdings and its Subsidiaries taken as a whole;

(k) Liens arising by virtue of UCC financing statement filings (or similar filings under applicable law) regarding operating leases entered into by Holdings or any Subsidiary in the ordinary course of business;

(l) Liens consisting of interests of lessors under capital leases permitted under Section 6.01;

(m) Liens on assets of Foreign Subsidiaries securing Indebtedness permitted by Section 6.01(l);

(n) Liens granted by a Subsidiary that is not a Loan Party in favor of the Borrower or another Loan Party in respect of Indebtedness owed by such Subsidiary; and

(o) other Liens on Excluded Assets securing Indebtedness or other obligations in an aggregate principal amount not exceeding \$1,000,000 at any time outstanding.

Notwithstanding the foregoing, none of the Liens permitted pursuant to this Section 6.02 may at any time attach to any Loan Party's (1) Accounts (including, without limitation, Credit Card Account Receivables), other than those permitted under clause (a) of the definition of Permitted Encumbrance and clause (a) above and (2) Inventory, other than those permitted under clauses (a) and (b) of the definition of Permitted Encumbrance and clause (a) above.

SECTION 6.03. Fundamental Changes. (a) No Loan Party will, nor will it permit any Subsidiary to, merge into or consolidate with any other Person, or permit any other Person to merge into or consolidate with it, or liquidate or dissolve, except that, if at the time thereof and immediately after giving effect thereto no Event of Default shall have occurred and be continuing (i) any Subsidiary of Holdings may merge into the Borrower in a transaction in which the Borrower is the surviving corporation, (ii) any Subsidiary of Holdings (other than the Borrower) may merge into any Loan Party in a transaction in which the surviving entity is a Loan Party and (iii) any Subsidiary that is not a Loan Party may liquidate or dissolve if the Borrower determines in good faith that such liquidation or dissolution is in the best interests of the Borrower and is not materially disadvantageous to the Lenders; provided that any such merger involving a Person that is not a wholly owned Subsidiary immediately prior to such merger shall not be permitted unless also permitted by Section 6.04.

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(b) No Loan Party will, nor will it permit any of its Subsidiaries to, engage in any business other than businesses of the type conducted by the Borrower and its Subsidiaries on the date of execution of this Agreement and businesses reasonably related thereto.

(c) Holdings will not engage in any business or activity other than business conducted as of the Effective Date (and activities incidental thereto) as the parent company of the Borrower and the other Subsidiaries, as a public company under securities laws.

SECTION 6.04. Investments, Loans, Advances, Guarantees and Acquisitions. No Loan Party will, nor will it permit any Subsidiary to, purchase, hold or acquire (including pursuant to any merger with any Person that was not a Loan Party and a wholly owned Subsidiary prior to such merger) any capital stock, evidences of indebtedness or other securities (including any option, warrant or other right to acquire any of the foregoing) of, make or permit to exist any loans or advances to, Guarantee any Indebtedness of, or make or permit to exist any investment or any other interest in, any other Person, or purchase or otherwise acquire (in one transaction or a series of transactions) any assets of any other Person constituting a business unit (whether through purchase of assets, merger or otherwise), except:

(a) Permitted Investments, subject, to the extent requested by the Administrative Agent, to control agreements in favor of the Administrative Agent for the benefit of the Secured Parties or otherwise subject to a perfected security interest in favor of the Administrative Agent for the benefit of the Secured Parties;

(b) investments, loans and advances in existence on the date of this Agreement and described in Schedule 6.04;

(c) investments by Holdings in the Borrower and by the Borrower and the Subsidiaries in Equity Interests in their respective Subsidiaries; provided that (A) any such Equity Interests held by a Loan Party shall be pledged pursuant to, and to the extent required by, the Security Agreement and the other Collateral Documents (subject to the limitations applicable to common stock of an Affected Foreign Subsidiary referred to in Section 5.12) and (B) the aggregate amount of investments by Loan Parties in Subsidiaries that are not Loan Parties (together with outstanding intercompany loans permitted under the proviso to Section 6.04(d) and outstanding Guarantees permitted under the proviso to Section 6.04(e)) shall not exceed \$15,000,000 at any time outstanding (in each case determined without regard to any write-downs or write-offs);

(d) loans or advances made by a Loan Party to any Subsidiary and made by any Subsidiary to any Loan Party or any other Subsidiary provided that the amount of such loans and advances made by Loan Parties to Subsidiaries that are not Loan Parties (together with outstanding investments permitted under clause (B) to the proviso to Section 6.04(c) and outstanding Guarantees permitted under the proviso to Section 6.04(e)) shall not exceed \$15,000,000 at any time outstanding (in each case determined without regard to any write-downs or write-offs);

(e) Guarantees constituting Indebtedness permitted by Section 6.01; provided that the aggregate principal amount of Indebtedness of Subsidiaries that are



not Loan Parties that is Guaranteed by any Loan Party shall (together with outstanding investments permitted under clause (B) to the proviso to Section 6.04(c) and outstanding intercompany loans permitted under the proviso to Section 6.04(d)) shall not exceed \$15,000,000 at any time outstanding (in each case determined without regard to any write-downs or write-offs);

(f) loans or advances made by a Loan Party to its employees on an arms-length basis in the ordinary course of business consistent with past practices for travel and entertainment expenses,

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relocation costs and similar purposes up to a maximum of \$1,000,000 in the aggregate at any one time outstanding;

(g) subject to Sections 4.2(a) and 4.4 of the Security Agreement, notes payable, or stock or other securities issued by account debtors or other obligors to a Loan Party pursuant to negotiated agreements with respect to settlement of such Account Debtor's Accounts in the ordinary course of business, consistent with past practices or received in connection with the bankruptcy or reorganization of an account debtor or other obligor;

(h) investments in the form of Swap Agreements permitted by Section 6.07;

(i) investments of any Person existing at the time such Person becomes a Subsidiary or consolidates or merges with Holdings or any of its Subsidiaries (including in connection with a Permitted Acquisition) so long as such investments were not made in contemplation of such Person becoming a Subsidiary or of such merger;

(j) investments received in connection with the dispositions of assets permitted by Section 6.05;

(k) accounts receivable arising and trade credit granted in the ordinary course of business and prepayments and other credits granted to suppliers in the ordinary course of business;

(l) loans or advances to, or for the benefit of, independent licensed dealers in products and services of Holdings and its Subsidiaries in an aggregate outstanding amount not exceeding \$5,000,000;

(m) investments constituting deposits described in clauses (c) and (d) of the definition of the term "Permitted Encumbrances"; and

(n) Permitted Acquisitions.

SECTION 6.05. Asset Sales. No Loan Party will, nor will it permit any Subsidiary to, sell, transfer, lease or otherwise dispose of any asset, including any Equity Interest owned by it, nor will the Borrower permit any Subsidiary to issue any additional Equity Interest in such Subsidiary (other than to the Borrower or another Subsidiary in compliance with Section 6.04), except:

(a) sales, transfers and dispositions of (i) inventory in the ordinary course of business and (ii) used, obsolete, worn out or surplus equipment or property in the ordinary course of business;

(b) sales, transfers and dispositions to any Loan Party or any Subsidiary; provided that any such sales, transfers or dispositions involving a Subsidiary that is not a Loan Party shall be made in compliance with Sections 6.04 and 6.09;

(c) sales, transfers and dispositions of accounts receivable in connection with the compromise, settlement or collection thereof;

(d) sales, transfers and dispositions of Permitted Investments and other investments permitted by clauses (i) and (k) of Section 6.04;

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(e) sale and leaseback transactions, and other financing arrangements, permitted by Sections 6.01(n) and 6.06, and any other sale of Real Property not involving the incurrence of Indebtedness;

(f) dispositions resulting from any casualty or other insured damage to, or any taking under power of eminent domain or by condemnation or similar proceeding of, any property or asset of any Loan Party or any Subsidiary;

(g) leases, subleases, licenses and sublicenses entered into in the ordinary course of business; and

(h) sales, transfers and other dispositions of assets (other than Equity Interests in a Subsidiary unless all Equity Interests in such Subsidiary are sold) that are not permitted by any other paragraph of this Section; provided that the aggregate fair market value of all assets sold, transferred or otherwise disposed of in reliance upon this paragraph (h) shall not exceed \$30,000,000;

provided that all sales, transfers, leases and other dispositions permitted hereby (other than those permitted by paragraphs (b) and (f) above) shall be made for fair value and for at least 75% cash consideration.

SECTION 6.06. Sale and Leaseback Transactions. Except for Real Property financing transactions existing on the Effective Date and set forth on Schedule 6.01 or otherwise permitted pursuant to Section 6.01(n), no Loan Party will, nor will it permit any Subsidiary to, enter into any arrangement, directly or indirectly, whereby it shall sell or transfer any property, real or personal, used or useful in its business, whether now owned or hereafter acquired, and thereafter rent or lease such property or other property that it intends to use for substantially the same purpose or purposes as the property sold or transferred, except for any such sale of any fixed or capital assets by any Loan Party or any Subsidiary that is made for cash consideration in an amount not less than the fair value of such fixed or capital asset and, in the case of an acquisition or construction of any fixed or capital asset as provided for in Section 6.01(e), is consummated within one hundred eighty (180) days after such Loan Party or such Subsidiary acquires or completes the construction of such fixed or capital asset.

SECTION 6.07. Swap Agreements. No Loan Party will, nor will it permit any Subsidiary to, enter into any Swap Agreement, except (a) Swap Agreements entered into to hedge or mitigate risks to which any Loan Party or any Subsidiary has actual exposure (other than those in respect of Equity Interests of the Borrower or any of its Subsidiaries), and (b) Swap Agreements entered into in order to effectively cap, collar or exchange interest rates (from fixed to floating rates, from one floating rate to another floating rate or otherwise) with respect to any interest-bearing liability or investment of any Loan Party or any Subsidiary.

SECTION 6.08. Restricted Payments; Certain Payments of Indebtedness. (a) No Loan Party will, nor will it permit any Subsidiary to, declare or make, or agree to pay or make, directly or indirectly, any Restricted Payment, or incur any obligation (contingent or otherwise) to do so, except (i) Holdings may declare and pay dividends with respect to its common stock payable solely in additional shares of its common stock, and, with respect to its preferred stock, payable solely in additional shares

of such preferred stock or in shares of its common stock, (ii) Holdings may make any dividend or distribution to all holders of its common stock to redeem rights issued pursuant to any stockholder rights plan, "poison pill" or a similar arrangement, provided that the aggregate amount of such dividends and distributions shall not exceed \$750,000, (iii) the Borrower and the Subsidiaries may declare and pay dividends ratably with respect to their Equity Interests, (iv) Holdings may make Restricted Payments pursuant to and in accordance with (A) equity incentive plans or other benefit plans for management or

employees of Holdings and its Subsidiaries so long as the Negative Covenant Permission Trigger is satisfied and (B) the employment agreement, and related restricted stock agreements, with M. Farooq Kathwari, as specified in Holdings' publicly filed proxy statement dated October 17, 2008 and (v) Holdings, the Borrower and its Subsidiaries may make any Restricted Payment so long as the Negative Covenant Permission Trigger is satisfied.

(b) No Loan Party will, nor will it permit any Subsidiary to, make or agree to pay or make, directly or indirectly, any payment or other distribution (whether in cash, securities or other property) of or in respect of principal of or interest on any Indebtedness, or any payment or other distribution (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any Indebtedness, except:

(i) payment of Indebtedness created under the Loan Documents;

(ii) payment of regularly scheduled interest and principal payments as and when due in respect of any Indebtedness, other than payments in respect of the Subordinated Indebtedness prohibited by the subordination provisions thereof;

(iii) refinancings of Indebtedness to the extent permitted by Section 6.01; and

(iv) payment of secured Indebtedness that becomes due as a result of the voluntary sale or transfer of the property or assets securing such Indebtedness;

provided that, Holdings, the Borrower and its Subsidiaries may make any payment described in clause (b) above so long as the Negative Covenant Permission Trigger is satisfied.

SECTION 6.09. Transactions with Affiliates. No Loan Party will, nor will it permit any Subsidiary to, sell, lease or otherwise transfer any property or assets to, or purchase, lease or otherwise acquire any property or assets from, or otherwise engage in any other transactions with, any of its Affiliates, except (a) transactions that (i) are in the ordinary course of business and (ii) are at prices and on terms and conditions not less favorable to the Loan Party or such Subsidiary than could be obtained on an arm's-length basis from unrelated third parties, (b) transactions between or among the Loan Party and any Subsidiary that is a Loan Party not involving any other Affiliate, (c) any investment permitted by Sections 6.04(c) or 6.04(d), (d) any Indebtedness permitted under Section 6.01(c), (e) any Restricted Payment permitted by Section 6.08, (f) loans or advances to employees permitted under Section 6.04, (g) the payment of reasonable fees to directors of Holdings or any Subsidiary who are not employees of Holdings or any Subsidiary, and compensation and benefit arrangements (including reasonable and customary expense advancements) paid to, and indemnities provided for the benefit of, directors, officers or employees of Holdings or its Subsidiaries in the ordinary course of business and (h) any issuances of securities or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, employment agreements, equity incentive and employee benefit plans approved by Holdings' board of directors.

SECTION 6.10. Restrictive Agreements. No Loan Party will, nor will it permit any Subsidiary to, directly or indirectly, enter into, incur or permit to exist any agreement or other arrangement that prohibits, restricts or imposes any condition upon (a) the ability of such Loan Party or any of its Subsidiaries to create, incur or permit to exist any Lien upon any of its property or assets, or (b) the ability of any Subsidiary to pay dividends or other distributions with respect to any shares of its capital stock or to make or repay loans or advances to the Borrower or any other Subsidiary or to Guarantee Indebtedness of the Borrower or any other Subsidiary; provided that (i) the foregoing shall not

apply to restrictions and conditions imposed by law or by any Loan Document, (ii) the foregoing shall not apply to restrictions and conditions existing on the date hereof identified on Schedule 6.10 (but shall apply to any extension or renewal of, or any amendment or modification, in each case expanding the scope of, any such restriction or condition), (iii) the foregoing shall not apply to customary restrictions and conditions contained in agreements relating to the sale of a Subsidiary or an asset pending such sale; provided such restrictions and conditions apply only to the Subsidiary or asset that is to be sold and such sale is permitted hereunder, (iv) clause (a) of the foregoing shall not apply to restrictions or conditions imposed by any agreement relating to secured Indebtedness permitted by this Agreement if such restrictions or conditions apply only to the property or assets securing such Indebtedness, (v) clause (a) of the foregoing shall not apply to customary provisions in licenses or leases restricting the assignment thereof and (vi) the foregoing shall not apply to (1) any restriction in any agreement of any Person in effect at the time such Person becomes a Subsidiary so long as such restriction is not entered into in contemplation of such Person becoming a Subsidiary, (2) customary restrictions and conditions in joint ventures or similar arrangements and (3) customary restrictions on then-market terms (for the applicable Indebtedness) under any Indebtedness permitted under Section 6.01 (so long as, in the case of Indebtedness under clauses (b) or (f) of Section 6.01, the restrictions imposed by any such Indebtedness which constitutes extended, renewed, replaced or refinanced Indebtedness are not more restrictive than the restrictions in the applicable original Indebtedness).

SECTION 6.11. Amendment of Material Documents. No Loan Party will, nor will it permit any Subsidiary to, amend, modify or waive any of its rights under (a) agreement relating to any Subordinated Indebtedness or any Material Indebtedness or (b) its certificate of incorporation, by-laws, operating, management or partnership agreement or other organizational documents, to the extent any such amendment, modification or waiver would be materially adverse to the Lenders.

#### SECTION 6.12. Financial Covenants.

(a) Fixed Charge Coverage Ratio. The Borrower will not, at any time when average monthly Availability is less than an amount equal to the greater of (i) 15% of the Aggregate Commitment at such time and (ii) \$9,000,000, permit the Fixed Charge Coverage Ratio, determined for any period of four consecutive fiscal quarters ending on the last day of each fiscal quarter, to be less than 1.00 to 1.00.

### ARTICLE VII

#### Events of Default

If any of the following events ("Events of Default") shall occur:

(a) the Borrower shall fail to pay any principal of any Loan or any reimbursement obligation in respect of any LC Disbursement when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise;

(b) the Borrower shall fail to pay any interest on any Loan or any fee or any other amount (other than an amount referred to in clause (a) of this Article)

payable under this Agreement, when and as the same shall become due and payable, and such failure shall continue unremedied for a period of three (3) Business Days;

(c) any representation or warranty made or deemed made by or on behalf of any Loan Party or any Subsidiary in or in connection with this Agreement or any Loan Document or any amendment or modification thereof or waiver thereunder, or in any report, certificate, financial

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statement or other document furnished pursuant to or in connection with this Agreement or any Loan Document or any amendment or modification thereof or waiver thereunder, shall prove to have been incorrect in any material respect when made or deemed made;

(d) any Loan Party shall fail to observe or perform any covenant, condition or agreement contained in Section 5.02(a), 5.03 (with respect to a Loan Party's existence), 5.08, 5.15 or in Article VI;

(e) any Loan Party shall fail to observe or perform any covenant, condition or agreement contained in this Agreement (other than those which constitute a default under another Section of this Article), and such failure shall continue unremedied for a period of (i) five (5) days after the earlier of any Loan Party's knowledge of such breach or notice thereof from the Administrative Agent (which notice will be given at the request of any Lender) if such breach relates to terms or provisions of Section 5.01, 5.02 (other than Section 5.02(a)), 5.03 through 5.07, 5.09, 5.10 or 5.13 of this Agreement or (ii) fifteen (15) days after the earlier of any Loan Party's knowledge of such breach or notice thereof from the Administrative Agent (which notice will be given at the request of any Lender) if such breach relates to terms or provisions of any other Section of this Agreement;

(f) any Loan Party or any Subsidiary shall fail to make any payment (whether of principal or interest and regardless of amount) in respect of any Material Indebtedness, when and as the same shall become due and payable;

(g) any event or condition occurs that results in any Material Indebtedness becoming due prior to its scheduled maturity or that enables or permits (with or without the giving of notice, the lapse of time or both) the holder or holders of any Material Indebtedness or any trustee or agent on its or their behalf to cause any Material Indebtedness to become due, or to require the prepayment, repurchase, redemption or defeasance thereof, prior to its scheduled maturity; provided that this clause (g) shall not apply to secured Indebtedness that becomes due as a result of the voluntary sale or transfer of the property or assets securing such Indebtedness;

(h) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of a Loan Party or any Subsidiary of any Loan Party or its debts, or of a substantial part of its assets, under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for any Loan Party or any Subsidiary of any Loan Party or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for sixty (60) days or an order or decree approving or ordering any of the foregoing shall be entered;

(i) any Loan Party or any Subsidiary of any Loan Party shall (i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (h) of this Article, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for such Loan Party or Subsidiary of any Loan Party or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors or (vi) take any action for the purpose of effecting any of the foregoing;

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(j) any Loan Party or any Subsidiary of any Loan Party shall become unable, admit in writing its inability or fail generally to pay its debts as they become due;

(k) one or more judgments for the payment of money in an aggregate amount in excess of \$10,000,000 shall be rendered against any Loan Party, any Subsidiary of any Loan Party or any combination thereof and the same shall remain undischarged for a period of thirty (30) consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to attach or levy upon any assets of any Loan Party or any Subsidiary of any Loan Party to enforce any such judgment or any Loan Party or any Subsidiary of any Loan Party shall fail within thirty (30) days to discharge one or more non-monetary judgments or orders which, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect, which judgments or orders, in any such case, are not stayed on appeal or otherwise being appropriately contested in good faith by proper proceedings diligently pursued;

(l) an ERISA Event shall have occurred that, in the opinion of the Required Lenders, when taken together with all other ERISA Events that have occurred, could reasonably be expected to result in a Material Adverse Effect;

(m) a Change in Control shall occur;

(n) the occurrence of any default or "Event of Default" as defined in any Loan Document (other than this Agreement) or the breach of any of the terms or provisions of any Loan Document (other than this Agreement), which default or breach continues beyond any period of grace therein provided;

(o) the Loan Guaranty shall fail to remain in full force or effect or any action shall be taken to discontinue or to assert the invalidity or unenforceability of the Loan Guaranty, or any Loan Guarantor shall fail to comply with any of the terms or provisions of the Loan Guaranty to which it is a party, or any Loan Guarantor shall deny that it has any further liability under the Loan Guaranty to which it is a party, or shall give notice to such effect;

(p) any Collateral Document shall for any reason fail to create a valid and perfected first priority security interest in any material portion of Collateral purported to be covered thereby, except as permitted by the terms of any Collateral Document, or any Collateral Document shall fail to remain in full force or effect or any action shall be taken to discontinue or to assert the invalidity or unenforceability of any Collateral Document, or any Loan Party shall fail to comply in any material respect with any of the terms or provisions of any Collateral Document; or

(q) any material provision of any Loan Document for any reason ceases to be valid, binding and enforceable in accordance with its terms (or any Loan Party shall challenge the enforceability of any Loan Document or shall assert in writing, or engage in any action or inaction based on any such assertion, that any provision of any of the Loan Documents has ceased to be or otherwise is not valid, binding and enforceable in accordance with its terms);

then, and in every such event (other than an event with respect to the Borrower described in clause (h) or (i) of this Article), and at any time thereafter during the continuance of such event, the Administrative Agent may, and at the request of the Required Lenders shall, by notice to the Borrower, take either or both of the following actions, at the same or different times: (i) terminate the Commitments, and thereupon the Commitments shall terminate immediately, and (ii) declare the Loans then outstanding to be due and payable in whole (or in part, in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable), and thereupon the principal of the Loans so declared to

be due and payable, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower; and in case of any event with respect to the Borrower described in clause (h) or (i) of this Article, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower. Upon the occurrence and during the continuance of an Event of Default, the Administrative Agent may, and at the request of the Required Lenders shall, exercise any rights and remedies provided to the Administrative Agent under the Loan Documents or at law or equity, including all remedies provided under the UCC.

## ARTICLE VIII

### The Administrative Agent

Each of the Lenders and the Issuing Bank hereby irrevocably appoints the Administrative Agent as its agent and authorizes the Administrative Agent to take such actions on its behalf, including execution of the other Loan Documents, and to exercise such powers as are delegated to the Administrative Agent by the terms of the Loan Documents, together with such actions and powers as are reasonably incidental thereto.

The bank serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent, and such bank and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Loan Parties or any Subsidiary of a Loan Party or other Affiliate thereof as if it were not the Administrative Agent hereunder.

The Administrative Agent shall not have any duties or obligations except those expressly set forth in the Loan Documents. Without limiting the generality of the foregoing, (a) the Administrative Agent shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing, (b) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated by the Loan Documents that the Administrative Agent is required to exercise in writing as directed by the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02), and (c) except as expressly set forth in the Loan Documents, the Administrative Agent shall not have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to any Loan Party or any of its Subsidiaries that is communicated to or obtained by the bank serving as Administrative Agent or any of its Affiliates in any capacity. The Administrative Agent shall not be liable for any action taken or not taken by it with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02) or in the absence of its own gross negligence or willful misconduct. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until written notice thereof is given to the Administrative Agent by the Borrower or a Lender, and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with any Loan Document, (ii) the contents of any certificate, report or other document delivered hereunder or in connection with any Loan Document, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth in any Loan Document, (iv) the validity, enforceability, effectiveness or genuineness of any Loan Document or any other agreement, instrument or document, (v) the creation, perfection or priority of Liens on the Collateral or the existence of the Collateral, or (vi) the

satisfaction of any condition set forth in Article IV or elsewhere in any Loan Document, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed or sent by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to be made by the proper Person, and shall not incur any liability for relying thereon. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

The Administrative Agent may perform any and all its duties and exercise its rights and powers by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers through their respective Related Parties. The exculpatory provisions of the preceding paragraphs shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

Subject to the appointment and acceptance of a successor Administrative Agent as provided in this paragraph, the Administrative Agent may resign at any time by notifying the Lenders, the Issuing Bank and the Borrower. Upon any such resignation, the Required Lenders shall have the right, in consultation with the Borrower, to appoint a successor. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may, on behalf of the Lenders and the Issuing Bank, appoint a successor Administrative Agent which shall be a commercial bank or an Affiliate of any such commercial bank. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. The fees payable by the Borrower to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After the Administrative Agent's resignation hereunder, the provisions of this Article, Section 2.17(d) and Section 9.03 shall continue in effect for the benefit of such retiring Administrative Agent, its sub agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while it was acting as Administrative Agent.

Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or related agreement or any document furnished hereunder or thereunder.

Each Lender hereby agrees that (a) it has requested a copy of each Report prepared by or on behalf of the Administrative Agent; (b) the Administrative Agent (i) makes no representation or warranty, express or implied, as to the completeness or accuracy of any Report or any of the information contained therein or any inaccuracy or omission contained in or relating to a Report and (ii) shall not be liable for any information contained in any Report; (c) the Reports are not comprehensive audits or

examinations, and that any Person performing any field examination will inspect only specific information regarding the Loan Parties and will rely significantly upon the Loan Parties' books and records, as well as on representations of the Loan Parties' personnel and that the Administrative Agent undertakes no obligation to update, correct or supplement the Reports; (d) it will keep all Reports confidential and strictly for its internal use, not share the Report with any Loan Party or any other Person except as otherwise permitted pursuant to this Agreement; and (e) without limiting the generality of any other indemnification provision contained in this Agreement, it will pay and protect, and indemnify, defend, and hold the Administrative Agent and any such other Person preparing a Report harmless from and against, the claims, actions, proceedings, damages, costs, expenses, and other amounts (including reasonable attorney fees) incurred by as the direct or indirect result of any third parties who might obtain all or part of any Report through the indemnifying Lender.

None of the Lenders, if any, identified in this Agreement as a Syndication Agent or Documentation Agent shall have any right, power, obligation, liability, responsibility or duty under this Agreement other than those applicable to all Lenders as such. Without limiting the foregoing, none of such Lenders shall have or be deemed to have a fiduciary relationship with any Lender. Each Lender hereby makes the same acknowledgments with respect to the relevant Lenders in their respective capacities as Syndication Agent or Documentation Agent, as applicable, as it makes with respect to the Administrative Agent in the preceding paragraph.

Except with respect to the exercise of setoff rights of any Lender, in accordance with Section 9.08, the proceeds of which are applied in accordance with this Agreement, each Lender agrees that it will not take any action, nor institute any actions or proceedings, against the Borrower or with respect to any Loan Document, without the prior written consent of the Required Lenders or, as may be provided in this Agreement or the other Loan Documents, with the consent of the Administrative Agent.

The Lenders are not partners or co-venturers, and no Lender shall be liable for the acts or omissions of, or (except as otherwise set forth herein in case of the Administrative Agent) authorized to act for, any other Lender. The Administrative Agent shall have the exclusive right on behalf of the Lenders to enforce the payment of the principal of and interest on any Loan after the date such principal or interest has become due and payable pursuant to the terms of this Agreement.

In its capacity, the Administrative Agent is a "representative" of the Secured Parties within the meaning of the term "secured party" as defined in the New York Uniform Commercial Code. Each Lender authorizes the Administrative Agent to enter into each of the Collateral Documents to which it is a party and to take all action contemplated by such documents. Each Lender agrees that no Secured Party (other than the Administrative Agent) shall have the right individually to seek to realize upon the security granted by any Collateral Document, it being understood and agreed that such rights and remedies may be exercised solely by the Administrative Agent for the benefit of the Secured Parties upon the terms of the Collateral Documents. In the event that any Collateral is hereafter pledged by any Person as collateral security for the Secured Obligations, the Administrative Agent is hereby authorized, and hereby granted a power of attorney, to execute and deliver on behalf of the Secured Parties any Loan Documents necessary or appropriate to grant and perfect a Lien on such Collateral in favor of the Administrative Agent on behalf of the Secured Parties. The Lenders hereby authorize the Administrative Agent, at its option and in its discretion, to release any Lien granted to or held by the Administrative Agent upon any Collateral (i) as described in Section 9.02(c); (ii) as permitted by, but only in accordance with, the terms of the applicable Loan Document; or (iii) if approved, authorized or ratified in writing by the Required Lenders, unless such release is required to be approved by all of the Lenders hereunder. Upon request by the Administrative Agent at any time, the Lenders will confirm in writing the Administrative Agent's authority to release particular types or items of Collateral pursuant hereto. Upon any sale or transfer of assets constituting Collateral which is permitted pursuant to the terms of any Loan

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Document, or consented to in writing by the Required Lenders or all of the Lenders, as applicable, and upon at least five (5) Business Days' prior written request by the Borrower to the Administrative Agent, the Administrative Agent shall (and is hereby irrevocably authorized by the Lenders to) execute such documents as may be necessary to evidence the release of the Liens granted to the Administrative Agent for the benefit of the Secured Parties herein or pursuant hereto upon the Collateral that was sold or transferred; provided, however, that (i) the Administrative Agent shall not be required to execute any such document on terms which, in the Administrative Agent's opinion, would expose the Administrative Agent to liability or create any obligation or entail any consequence other than the release of such Liens without recourse or warranty, and (ii) such release shall not in any manner discharge, affect or impair the Secured Obligations or any Liens upon (or obligations of the Borrower or any Subsidiary in respect of) all interests retained by the Borrower or any Subsidiary, including (without limitation) the proceeds of the sale, all of which shall continue to constitute part of the Collateral.

The Borrower, on its behalf and on behalf of its Subsidiaries, and each Lender, on its behalf and on the behalf of its affiliated Secured Parties, hereby irrevocably constitute the Administrative Agent as the holder of an irrevocable power of attorney (*fondé de pouvoir* within the meaning of Article 2692 of the Civil Code of Québec) in order to hold hypothecs and security granted by the Borrower or any Subsidiary on property pursuant to the laws of the Province of Quebec to secure obligations of the Borrower or any Subsidiary under any bond, debenture or similar title of indebtedness issued by the Borrower or any Subsidiary in connection with this Agreement, and agree that the Administrative Agent may act as the bondholder and mandatary with respect to any bond, debenture or similar title of indebtedness that may be issued by the Borrower or any Subsidiary and pledged in favor of the Secured Parties in connection with this Agreement. Notwithstanding the provisions of Section 32 of the An Act respecting the special powers of legal persons (Quebec), JPMorgan Chase Bank, N.A. as Administrative Agent may acquire and be the holder of any bond issued by the Borrower or any Subsidiary in connection with this Agreement (i.e., the *fondé de pouvoir* may acquire and hold the first bond issued under any deed of hypothec by the Borrower or any Subsidiary).

The Administrative Agent is hereby authorized to execute and deliver any documents necessary or appropriate to create and perfect the rights of pledge for the benefit of the Secured Parties including a right of pledge with respect to the entitlements to profits, the balance left after winding up and the voting rights of the Borrower as ultimate parent of any subsidiary of the Borrower which is organized under the laws of the Netherlands and the Equity Interests of which are pledged in connection herewith (a "Dutch Pledge"). Without prejudice to the provisions of this Agreement and the other Loan Documents, the parties hereto acknowledge and agree with the creation of parallel debt obligations of the Borrower or any relevant Subsidiary as will be described in any Dutch Pledge (the "Parallel Debt"), including that any payment received by the Administrative Agent in respect of the Parallel Debt will conditionally upon such payment not subsequently being avoided or reduced by virtue of any provisions or enactments relating to bankruptcy, insolvency, preference, liquidation or similar laws of general application be deemed a satisfaction of a pro rata portion of the corresponding amounts of the Obligations, and any payment to the Secured Parties in satisfaction of the Obligations shall conditionally upon such payment not subsequently being avoided or reduced by virtue of any provisions or enactments relating to bankruptcy, insolvency, preference, liquidation or similar laws of general application be deemed as satisfaction of the corresponding amount of the Parallel Debt. The parties hereto acknowledge and agree that, for purposes of a Dutch Pledge, any resignation by the Administrative Agent is not effective until its rights under the Parallel Debt are assigned to the successor Administrative Agent.

The parties hereto acknowledge and agree for the purposes of taking and ensuring the continuing validity of German law governed pledges (*Pfandrechte*) with the creation of parallel debt obligations of the Borrower as will be further described in a separate German law governed parallel debt undertaking. The Administrative Agent shall (i) hold such parallel debt undertaking as fiduciary agent

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(*Treuhaender*) and (ii) administer and hold as fiduciary agent (*Treuhaender*) any pledge created under a German law governed Collateral Document which is created in favor of any Holder of the Secured Obligations or transferred to any Holder of the Secured Obligations due to its accessory nature (*Akzessorietät*), in each case in its own name and for the account of the Holders of the Secured Obligations. Each Lender, on its own behalf and on behalf of its affiliated Secured Parties, hereby authorizes the Administrative Agent to enter as its agent in its name and on its behalf into any German law governed Collateral Document, to accept as its agent in its name and on its behalf any pledge under such Collateral Document and to agree to and execute as agent its in its name and on its behalf any amendments, supplements and other alterations to any such Collateral Document and to release any such Collateral Document and any pledge created under any such Collateral Document in accordance with the provisions herein and/or the provisions in any such Collateral Document

ARTICLE IX

Miscellaneous

SECTION 9.01. Notices. (a) Except in the case of notices and other communications expressly permitted to be given by telephone (and subject to paragraph (b) below), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by facsimile, as follows:

(i) if to any Loan Party, to it at Ethan Allen Drive, Danbury, Connecticut 06811, Attention of Chief Financial Officer or Treasurer (Telecopy No. (203) 743-8469; Telephone No. (203) 743-8305), with copies to, in the case of any notice or communication other than routine notices and communications under Article II, the attention of General Counsel at the aforesaid address (Telecopy No. (203) 743-8254);

(ii) if to the Administrative Agent, to JPMorgan Chase Bank, N.A., 270 Park Avenue, 44th Floor, New York, NY 10017, Attention of Joseph A. Lisack (Telecopy No. (646) 534-2288);

(iii) if to the Issuing Bank, to JPMorgan Chase Bank, N.A., 270 Park Avenue, 44th Floor, New York, NY 10017, Attention of Joseph A. Lisack (Telecopy No. (646) 534-2288);

(iv) if to the Swingline Lender, to JPMorgan Chase Bank, N.A., 270 Park Avenue, 44th Floor, New York, NY 10017, Attention of Joseph A. Lisack (Telecopy No. (646) 534-2288); and

(v) if to any other Lender, to it at its address (or telecopy number) set forth in its Administrative Questionnaire.

All such notices and other communications (i) sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received or (ii) sent by facsimile, shall be deemed to have been given when sent, provided that if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next Business Day for the recipient.

(b) Notices and other communications to the Lenders hereunder may be delivered or furnished by electronic communications (including e-mail and internet or intranet websites) pursuant to procedures approved by the Administrative Agent; provided that the foregoing shall not apply to notices pursuant to Article II or to compliance and no Event of Default certificates delivered pursuant to Section 5.01(d) unless otherwise agreed by the Administrative Agent and the applicable Lender. The Administrative Agent or the Borrower (on behalf of the Loan Parties) may, in its discretion, agree

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to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it; provided that approval of such procedures may be limited to particular notices or communications. All such notices and other communications (i) sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgement); provided that if not given during the normal business hours of the recipient, such notice or communication shall be deemed to have been given at the opening of business on the next Business Day for the recipient, and (ii) posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient at its e-mail address as described in the foregoing clause (b)(i) of notification that such notice or communication is available and identifying the website address therefor.

(c) Any party hereto may change its address or facsimile number for notices and other communications hereunder by notice to the other parties hereto.

SECTION 9.02. Waivers; Amendments. (a) No failure or delay by the Administrative Agent, the Issuing Bank or any Lender in exercising any right or power hereunder or under any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Administrative Agent, the Issuing Bank and the Lenders hereunder and under any other Loan Document are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of any Loan Document or consent to any departure by any Loan Party therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) of this Section, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan or issuance of a Letter of Credit shall not be construed as a waiver of any Default, regardless of whether the Administrative Agent, any Lender or the Issuing Bank may have had notice or knowledge of such Default at the time.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower and the Required Lenders; provided that no such agreement shall (i) increase the Commitment of any Lender without the written consent of such Lender (provided that the Administrative Agent may make Protective Advances as set forth in Section 2.04), (ii) reduce or forgive the principal amount of any Loan or LC Disbursement or reduce the rate of interest thereon, or reduce or forgive any interest or fees payable hereunder, without the written consent of each Lender directly affected thereby, (iii) postpone any scheduled date of payment of the principal amount of any Loan or LC Disbursement, or any date for the payment of any interest, fees or other Obligations payable hereunder, or reduce the amount of, waive or excuse any such payment, or postpone the scheduled date of expiration of any Commitment, without the written consent of each Lender directly affected thereby, (iv) change Section 2.18(b) or (d) in a manner that would alter the manner in which payments are shared, without the written consent of each Lender, (v) increase the advance rates set forth in the definition of Borrowing Base or add new categories of eligible assets, without the written consent of each Lender, (vi) change any of the provisions of this Section or the definition of "Required Lenders" or any other provision of any Loan Document specifying the number or percentage of Lenders required to waive, amend or modify any rights thereunder or make any determination or grant any consent thereunder, without the written consent of each Lender, (vii) change Section 2.20, without the consent of each Lender (other than any Defaulting Lender), (viii) release any Loan Guarantor from its obligation under its Loan Guaranty (except as otherwise permitted herein or in the other Loan Documents), without the written consent of each Lender, or (ix) except as provided in clauses (d) and (e) of this Section or in any

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Collateral Document, release all or substantially all of the Collateral, without the written consent of each Lender; provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent, the Issuing Bank or the Swingline Lender hereunder without the prior written consent of the Administrative Agent, the Issuing Bank or the Swingline Lender, as the case may be (it being understood that any change to Section 2.20 shall require the consent of the Administrative Agent, the Swingline Lender and the Issuing Bank). The Administrative Agent may also amend Schedule 2.01 to reflect assignments entered into pursuant to Section 9.04

(c) (1) The Lenders hereby irrevocably authorize the Administrative Agent, at its option and in its sole discretion, to release any Liens granted to the Administrative Agent by the Loan Parties on any Collateral (i) upon the termination of the all Commitments, payment and satisfaction in full in cash of all Secured Obligations (other than Unliquidated Obligations), and the cash collateralization of all Unliquidated Obligations in a manner satisfactory to the Administrative Agent, (ii) constituting property being sold or disposed of if the Loan Party disposing of such property certifies to the Administrative Agent that the sale or disposition is made in

compliance with the terms of this Agreement (and the Administrative Agent may rely conclusively on any such certificate, without further inquiry), and to the extent that the property being sold or disposed of constitutes 100% of the Equity Interest of a Subsidiary, the Administrative Agent is authorized to release any Loan Guaranty provided by such Subsidiary, (iii) constituting property leased to a Loan Party under a lease which has expired or been terminated in a transaction permitted under this Agreement, (iv) as required to effect any sale or other disposition of such Collateral in connection with any exercise of remedies of the Administrative Agent and the Lenders pursuant to Article VII and (v) as otherwise contemplated hereunder in connection with cash collateral securing LC Exposure. Except as provided in the preceding sentence and the following clause (2), the Administrative Agent will not release any Liens on Collateral without the prior written authorization of the Required Lenders; provided that, the Administrative Agent may in its discretion, release its Liens on Collateral valued in the aggregate not in excess of \$5,000,000 during any calendar year without the prior written authorization of the Required Lenders. Any such release shall not in any manner discharge, affect, or impair the Obligations or any Liens (other than those expressly being released) upon (or obligations of the Loan Parties in respect of) all interests retained by the Loan Parties, including the proceeds of any sale, all of which shall continue to constitute part of the Collateral.

(2) Notwithstanding the foregoing clause (1), any Loan Party that is a Subsidiary (other than the Borrower) shall be automatically released from its obligations under the Loan Documents and all security interests in the Collateral of such Loan Party created by the Loan Documents shall be automatically released upon the consummation of any transaction permitted by this Agreement as a result of which such Loan Party ceases to be a Subsidiary. Upon any sale, lease, transfer or other disposition by any Loan Party of any Collateral that is permitted under this Agreement to any Person other than Holdings or a Subsidiary, or upon the effectiveness of any written consent to the release of the security interest created under any Loan Document in any Collateral pursuant to Section 9.02, the security interest in such Collateral shall be automatically released. In connection with any termination or release pursuant to this Section, the Administrative Agent, upon receipt of any certificates or other documents reasonably requested by it to confirm compliance with this Agreement, shall promptly execute and deliver to any Loan Party, at such Loan Party's expense, all documents that such Loan Party shall reasonably request to evidence such termination or release. The Lenders hereby irrevocably authorize the Administrative Agent to take all actions specified in this Section 9.02(c)(2). Any execution and delivery of documents pursuant to this Section shall be without recourse to or warranty by the Administrative Agent.

(d) If, in connection with any proposed amendment, waiver or consent requiring the consent of "each Lender" or "each Lender directly affected thereby," the consent of the Required

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Lenders is obtained, but the consent of other necessary Lenders is not obtained (any such Lender whose consent is necessary but not obtained being referred to herein as a "Non-Consenting Lender"), then the Borrower may elect to replace a Non-Consenting Lender as a Lender party to this Agreement; provided that, concurrently with such replacement, (i) another bank or other entity which is reasonably satisfactory to the Borrower and the Administrative Agent shall agree, as of such date, to purchase for cash the Loans and other Obligations due to the Non-Consenting Lender pursuant to an Assignment and Assumption and to become a Lender for all purposes under this Agreement and to assume all obligations of the Non-Consenting Lender to be terminated as of such date and to comply with the requirements of clause (b) of Section 9.04, and (ii) the Borrower shall pay to such Non-Consenting Lender in same day funds on the day of such replacement (1) all interest, fees and other amounts then accrued but unpaid to such Non-Consenting Lender by the Borrower hereunder to and including the date of termination, including without limitation payments due to such Non-Consenting Lender under Sections 2.15 and 2.17, and (2) an amount, if any, equal to the payment which would have been due to such Lender on the day of such replacement under Section 2.16 had the Loans of such Non-Consenting Lender been prepaid on such date rather than sold to the replacement Lender.

SECTION 9.03. Expenses; Indemnity; Damage Waiver. (a) The Borrower shall pay (i) all reasonable out of pocket expenses incurred by the Administrative Agent and its Affiliates, including the reasonable fees, charges and disbursements of counsel for the Administrative Agent, in connection with the syndication and distribution (including, without limitation, via the internet or through a service such as Intralinks) of the credit facilities provided for herein, the preparation and administration of the Loan Documents or any amendments, modifications or waivers of the provisions of the Loan Documents (whether or not the transactions contemplated hereby or thereby shall be consummated), (ii) all reasonable out-of-pocket expenses incurred by the Issuing Bank in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder and (iii) all out-of-pocket expenses incurred by the Administrative Agent, the Issuing Bank or any Lender, including the fees, charges and disbursements of any counsel for the Administrative Agent, the Issuing Bank or any Lender, in connection with the enforcement, collection or protection of its rights in connection with the Loan Documents, including its rights under this Section, or in connection with the Loans made or Letters of Credit issued hereunder, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans or Letters of Credit. Expenses being reimbursed by the Borrower under this Section include, without limiting the generality of the foregoing, reasonable fees, costs and expenses incurred in connection with:

- (i) appraisals and insurance reviews and environmental reviews;
- (ii) field examinations and the preparation of Reports based on the fees charged by a third party retained by the Administrative Agent or the internally allocated fees for each Person employed by the Administrative Agent with respect to each field examination;
- (iii) taxes, fees and other charges for (A) lien searches and (B) filing financing statements and continuations, and other actions to perfect, protect, and continue the Administrative Agent's Liens;
- (iv) sums paid or incurred to take any action required of any Loan Party under the Loan Documents that such Loan Party fails to pay or take; and
- (v) forwarding loan proceeds, collecting checks and other items of payment, and establishing and maintaining the accounts and lock boxes, and costs and expenses of preserving and protecting the Collateral.

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All of the foregoing fees, costs and expenses may be charged to the Borrower as Revolving Loans or to another deposit account, all as described in Section 2.18(c).

(b) The Borrower shall indemnify the Administrative Agent, the Issuing Bank and each Lender, and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnitee") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, penalties, incremental taxes, liabilities and related expenses, including the fees, charges and disbursements of any counsel for any Indemnitee, incurred by or asserted against any Indemnitee arising out of, in connection with, or as a result of (i) the execution or delivery of the Loan Documents or any agreement or instrument contemplated thereby, the performance by the parties hereto of their respective obligations thereunder or the consummation of the Transactions or any other transactions contemplated hereby, (ii) any Loan or Letter of Credit or the use of the proceeds therefrom (including any refusal by the Issuing Bank to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), (iii) any actual or alleged presence or release of Hazardous Materials on or from any property owned or operated by the Borrower or any of its Subsidiaries, or any Environmental Liability related in any way to the Borrower or any of its Subsidiaries, (iv) the failure of the Borrower to deliver to the Administrative Agent the required receipts or other required documentary evidence with respect to a payment made by the Borrower for Taxes pursuant to Section 2.17, or (v) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, penalties, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee.

(c) To the extent that the Borrower fails to pay any amount required to be paid by it to the Administrative Agent, the Issuing Bank or the Swingline



Lender under paragraph (a) or (b) of this Section, each Lender severally agrees to pay to the Administrative Agent, the Issuing Bank or the Swingline Lender, as the case may be, such Lender's Applicable Percentage (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount (it being understood that the Borrower's failure to pay any such amount shall not relieve the Borrower of any default in the payment thereof); provided that the unreimbursed expense or indemnified loss, claim, damage, penalty, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent, the Issuing Bank or the Swingline Lender in its capacity as such.

(d) To the extent permitted by applicable law, no Loan Party shall assert, and each hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement or any agreement or instrument contemplated hereby, the Transactions, any Loan or Letter of Credit or the use of the proceeds thereof.

(e) All amounts due under this Section shall be payable not later than fifteen (15) days after written demand therefor.

SECTION 9.04. Successors and Assigns. (a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby (including any Affiliate of the Issuing Bank that issues any Letter of Credit), except that (i) the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by the Borrower without such consent shall be null and void) and (ii) no Lender may assign or otherwise transfer its rights

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or obligations hereunder except in accordance with this Section. Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby (including any Affiliate of the Issuing Bank that issues any Letter of Credit), Participants (to the extent provided in paragraph (c) of this Section) and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent, the Issuing Bank and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b)(i) Subject to the conditions set forth in paragraph (b)(ii) below, any Lender may assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it) with the prior written consent (such consent not to be unreasonably withheld) of:

(A) the Borrower; provided that no consent of the Borrower shall be required for an assignment to a Lender, an Affiliate of a Lender, an Approved Fund or, if an Event of Default has occurred and is continuing, any other assignee;

(B) the Administrative Agent; and

(C) the Issuing Bank.

(ii) Assignments shall be subject to the following additional conditions:

(A) except in the case of an assignment to a Lender or an Affiliate of a Lender or an assignment of the entire remaining amount of the assigning Lender's Commitment or Loans of any Class, the amount of the Commitment or Loans of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent) shall not be less than \$5,000,000 unless each of the Borrower and the Administrative Agent otherwise consent; provided that no such consent of the Borrower shall be required if an Event of Default has occurred and is continuing;

(B) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement;

(C) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee of \$3,500, such fee to be paid by either the assigning Lender or the assignee Lender or shared between such Lenders; and

(D) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire in which the assignee designates one or more Credit Contacts to whom all syndicate-level information (which may contain material non-public information about the Borrower, the Loan Parties and their Related Parties or their respective securities) will be made available and who may receive such information in accordance with the assignee's compliance procedures and applicable laws, including Federal and state securities laws.

For the purposes of this Section 9.04(b), the term "Approved Fund" has the following meaning:

"Approved Fund" means any Person (other than a natural person) that is engaged in making, purchasing, holding or investing in bank loans and similar extensions of credit in the ordinary course of its business and that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

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(iii) Subject to acceptance and recording thereof pursuant to paragraph (b)(iv) of this Section, from and after the effective date specified in each Assignment and Assumption the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.15, 2.16, 2.17 and 9.03). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this Section 9.04 shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (c) of this Section.

(iv) The Administrative Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitment of, and principal amount of the Loans and LC Disbursements owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and the Borrower, the Administrative Agent, the Issuing Bank and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower, the Issuing Bank and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(v) Upon its receipt of a duly completed Assignment and Assumption executed by an assigning Lender and an assignee, the assignee's completed Administrative Questionnaire (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) of this Section and any written consent to such assignment required by paragraph (b) of this Section, the Administrative Agent shall accept such Assignment and Assumption and record the information contained therein in the Register; provided that if either the assigning Lender or the assignee shall have failed to make any payment required

to be made by it pursuant to Section 2.05, 2.06(d) or (e), 2.07(b), 2.18(d) or 9.03(c), the Administrative Agent shall have no obligation to accept such Assignment and Assumption and record the information therein in the Register unless and until such payment shall have been made in full, together with all accrued interest thereon. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

(c)(i) Any Lender may, without the consent of the Borrower, the Administrative Agent, the Issuing Bank or the Swingline Lender, sell participations to one or more banks or other entities (a "Participant") in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans owing to it); provided that (A) such Lender's obligations under this Agreement shall remain unchanged, (B) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (C) the Borrower, the Administrative Agent, the Issuing Bank and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in the first proviso to Section 9.02(b) that affects such Participant. Subject to paragraph (c)(ii) of this Section, the Borrower agrees that each Participant

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shall be entitled to the benefits of Sections 2.15, 2.16 and 2.17 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 9.08 as though it were a Lender, provided such Participant agrees to be subject to Section 2.18(c) as though it were a Lender.

(ii) A Participant shall not be entitled to receive any greater payment under Section 2.15 or 2.17 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 2.17 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 2.17(f) as though it were a Lender.

(d) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including without limitation any pledge or assignment to secure obligations to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

SECTION 9.05. Survival. All covenants, agreements, representations and warranties made by the Loan Parties in the Loan Documents and in the certificates or other instruments delivered in connection with or pursuant to this Agreement or any other Loan Document shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of the Loan Documents and the making of any Loans and issuance of any Letters of Credit, regardless of any investigation made by any such other party or on its behalf and notwithstanding that the Administrative Agent, the Issuing Bank or any Lender may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any fee or any other amount payable under this Agreement is outstanding and unpaid or any Letter of Credit is outstanding and so long as the Commitments have not expired or terminated. The provisions of Sections 2.15, 2.16, 2.17 and 9.03 and Article VIII shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment of the Loans, the expiration or termination of the Letters of Credit and the Commitments or the termination of this Agreement or any other Loan Document or any provision hereof or thereof.

SECTION 9.06. Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement, the other Loan Documents and any separate letter agreements with respect to fees payable to the Administrative Agent constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 4.01, this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of a signature page of this Agreement by facsimile shall be effective as delivery of a manually executed counterpart of this Agreement.

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SECTION 9.07. Severability. Any provision of any Loan Document held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions thereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

SECTION 9.08. Right of Setoff. If an Event of Default shall have occurred and be continuing, each Lender and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other obligations at any time owing by such Lender or Affiliate to or for the credit or the account of the Borrower or any Loan Guarantor against any of and all the Secured Obligations held by such Lender, irrespective of whether or not such Lender shall have made any demand under the Loan Documents and although such obligations may be unmaturing. The applicable Lender shall notify the Borrower and the Administrative Agent of such set-off or application; provided that any failure to give or any delay in giving such notice shall not affect the validity of any such set-off or application under this Section. The rights of each Lender under this Section are in addition to other rights and remedies (including other rights of setoff) which such Lender may have.

SECTION 9.09. Governing Law; Jurisdiction; Consent to Service of Process. (a) The Loan Documents shall be construed in accordance with and governed by the law of the State of New York, but giving effect to federal laws applicable to national banks.

(b) Each Loan Party hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any U.S. Federal or New York State court sitting in New York County, New York in any action or proceeding arising out of or relating to any Loan Document, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement or any other Loan Document shall affect any right that the Administrative Agent, the Issuing Bank or any Lender may otherwise have to bring any action or proceeding relating to this Agreement or any other Loan Document against any Loan Party or its properties in the courts of any jurisdiction.

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

(d) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 9.01. Nothing in this Agreement

or any other Loan Document will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 9.10. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT, ANY OTHER LOAN DOCUMENT OR

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THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

SECTION 9.11. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

SECTION 9.12. Confidentiality. Each of the Administrative Agent, the Issuing Bank and the Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority, (c) to the extent required by Requirement of Law or by any subpoena or similar legal process, (d) to any other party to this Agreement, (e) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to (i) any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement or (ii) any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to the Loan Parties and their obligations, (g) with the consent of the Borrower or (h) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section or (ii) becomes available to the Administrative Agent, the Issuing Bank or any Lender on a non-confidential basis from a source other than the Borrower. For the purposes of this Section, "Information" means all information received from the Borrower relating to the Borrower or its business, other than any such information that is available to the Administrative Agent, the Issuing Bank or any Lender on a non-confidential basis prior to disclosure by the Borrower; provided that, in the case of information received from the Borrower after the date hereof, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

**EACH LENDER ACKNOWLEDGES THAT INFORMATION AS DEFINED IN SECTION 9.12 FURNISHED TO IT PURSUANT TO THIS AGREEMENT MAY INCLUDE MATERIAL NON-PUBLIC INFORMATION CONCERNING THE BORROWER AND ITS AFFILIATES AND THEIR RELATED PARTIES OR THEIR RESPECTIVE SECURITIES, AND CONFIRMS THAT IT HAS DEVELOPED COMPLIANCE PROCEDURES REGARDING THE USE OF MATERIAL NON-PUBLIC INFORMATION AND THAT IT WILL HANDLE SUCH MATERIAL NON-PUBLIC INFORMATION IN ACCORDANCE WITH THOSE PROCEDURES AND APPLICABLE LAW, INCLUDING FEDERAL AND STATE SECURITIES LAWS.**

**ALL INFORMATION, INCLUDING REQUESTS FOR WAIVERS AND AMENDMENTS, FURNISHED BY THE BORROWER OR THE ADMINISTRATIVE AGENT PURSUANT TO, OR IN THE COURSE OF ADMINISTERING, THIS AGREEMENT WILL BE**

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**SYNDICATE-LEVEL INFORMATION, WHICH MAY CONTAIN MATERIAL NON-PUBLIC INFORMATION ABOUT THE BORROWER, THE LOAN PARTIES AND THEIR RELATED PARTIES OR THEIR RESPECTIVE SECURITIES. ACCORDINGLY, EACH LENDER REPRESENTS TO THE BORROWER AND THE ADMINISTRATIVE AGENT THAT IT HAS IDENTIFIED IN ITS ADMINISTRATIVE QUESTIONNAIRE A CREDIT CONTACT WHO MAY RECEIVE INFORMATION THAT MAY CONTAIN MATERIAL NON-PUBLIC INFORMATION IN ACCORDANCE WITH ITS COMPLIANCE PROCEDURES AND APPLICABLE LAW, INCLUDING FEDERAL AND STATE SECURITIES LAWS.**

SECTION 9.13. Several Obligations; Nonreliance; Violation of Law. The respective obligations of the Lenders hereunder are several and not joint and the failure of any Lender to make any Loan or perform any of its obligations hereunder shall not relieve any other Lender from any of its obligations hereunder. Each Lender hereby represents that it is not relying on or looking to any margin stock for the repayment of the Borrowings provided for herein. Anything contained in this Agreement to the contrary notwithstanding, neither the Issuing Bank nor any Lender shall be obligated to extend credit to the Borrower in violation of any Requirement of Law.

SECTION 9.14. USA PATRIOT Act. Each Lender that is subject to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act") hereby notifies the Borrower that pursuant to the requirements of the Act, it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender to identify the Borrower in accordance with the Act.

SECTION 9.15. Disclosure. Each Loan Party and each Lender hereby acknowledges and agrees that the Administrative Agent and/or its Affiliates from time to time may hold investments in, make other loans to or have other relationships with any of the Loan Parties and their respective Affiliates.

SECTION 9.16. Appointment for Perfection. Each Lender hereby appoints each other Lender as its agent for the purpose of perfecting Liens, for the benefit of the Administrative Agent and the Lenders, in assets which, in accordance with Article 9 of the UCC or any other applicable law can be perfected only by possession. Should any Lender (other than the Administrative Agent) obtain possession of any such Collateral, such Lender shall notify the Administrative Agent thereof, and, promptly upon the Administrative Agent's request therefor shall deliver such Collateral to the Administrative Agent or otherwise deal with such Collateral in accordance with the Administrative Agent's instructions.

SECTION 9.17. Interest Rate Limitation. Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan, together with all fees, charges and other amounts which are treated as interest on such Loan under applicable law (collectively the "Charges"), shall exceed the maximum lawful rate (the "Maximum Rate") which may be contracted for, charged, taken, received or reserved by the Lender holding such Loan in accordance with applicable law, the rate of interest payable in respect of such Loan hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan but were not payable as a result of the operation of this Section shall be cumulated and the interest and Charges payable to such Lender in respect of other Loans or periods shall be increased (but not above the Maximum Rate therefor) until such cumulated amount, together with interest thereon at the Federal Funds Effective Rate to the date of repayment, shall have been received by such Lender.

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SECTION 9.18. Conflicts. In the event of any conflict between the terms of this Agreement and the terms of any other Loan Document, the terms of this Agreement shall, to the extent of such conflict, prevail.

## ARTICLE X

### Loan Guaranty

SECTION 10.01. Guaranty. Each Loan Guarantor (other than those that have delivered a separate Guaranty) hereby agrees that it is jointly and severally liable for, and, as primary obligor and not merely as surety, absolutely and unconditionally guarantees to the Lenders the prompt payment when due, whether at stated maturity, upon acceleration or otherwise, and at all times thereafter, of the Secured Obligations and all costs and expenses including, without limitation, all court costs and attorneys' and paralegals' fees (including allocated costs of in-house counsel and paralegals) and expenses paid or incurred by the Administrative Agent, the Issuing Bank and the Lenders in endeavoring to collect all or any part of the Secured Obligations from, or in prosecuting any action against, the Borrower, any Loan Guarantor or any other guarantor of all or any part of the Secured Obligations (such costs and expenses, together with the Secured Obligations, collectively the "Guaranteed Obligations"). Each Loan Guarantor further agrees that the Guaranteed Obligations may be extended or renewed in whole or in part without notice to or further assent from it, and that it remains bound upon its guarantee notwithstanding any such extension or renewal. All terms of this Loan Guaranty apply to and may be enforced by or on behalf of any domestic or foreign branch or Affiliate of any Lender that extended any portion of the Guaranteed Obligations.

SECTION 10.02. Guaranty of Payment. This Loan Guaranty is a guaranty of payment and not of collection. Each Loan Guarantor waives any right to require the Administrative Agent, the Issuing Bank or any Lender to sue the Borrower, any Loan Guarantor, any other guarantor, or any other person obligated for all or any part of the Guaranteed Obligations (each, an "Obligated Party"), or otherwise to enforce its payment against any collateral securing all or any part of the Guaranteed Obligations.

SECTION 10.03. No Discharge or Diminishment of Loan Guaranty. (a) Except as otherwise provided for herein, the obligations of each Loan Guarantor hereunder are unconditional and absolute and not subject to any reduction, limitation, impairment or termination for any reason (other than the indefeasible payment in full in cash of the Guaranteed Obligations), including: (i) any claim of waiver, release, extension, renewal, settlement, surrender, alteration, or compromise of any of the Guaranteed Obligations, by operation of law or otherwise; (ii) any change in the corporate existence, structure or ownership of the Borrower or any other guarantor of or other person liable for any of the Guaranteed Obligations; (iii) any insolvency, bankruptcy, reorganization or other similar proceeding affecting any Obligated Party, or their assets or any resulting release or discharge of any obligation of any Obligated Party; or (iv) the existence of any claim, setoff or other rights which any Loan Guarantor may have at any time against any Obligated Party, the Administrative Agent, the Issuing Bank, any Lender, or any other person, whether in connection herewith or in any unrelated transactions.

(b) The obligations of each Loan Guarantor hereunder are not subject to any defense or setoff, counterclaim, recoupment, or termination whatsoever by reason of the invalidity, illegality, or unenforceability of any of the Guaranteed Obligations or otherwise, or any provision of applicable law or regulation purporting to prohibit payment by any Obligated Party, of the Guaranteed Obligations or any part thereof.

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(c) Further, the obligations of any Loan Guarantor hereunder are not discharged or impaired or otherwise affected by: (i) the failure of the Administrative Agent, the Issuing Bank or any Lender to assert any claim or demand or to enforce any remedy with respect to all or any part of the Guaranteed Obligations; (ii) any waiver or modification of or supplement to any provision of any agreement relating to the Guaranteed Obligations; (iii) any release, non-perfection, or invalidity of any indirect or direct security for the obligations of the Borrower for all or any part of the Guaranteed Obligations or any obligations of any other guarantor of or other person liable for any of the Guaranteed Obligations; (iv) any action or failure to act by the Administrative Agent, the Issuing Bank or any Lender with respect to any collateral securing any part of the Guaranteed Obligations; or (v) any default, failure or delay, willful or otherwise, in the payment or performance of any of the Guaranteed Obligations, or any other circumstance, act, omission or delay that might in any manner or to any extent vary the risk of such Loan Guarantor or that would otherwise operate as a discharge of any Loan Guarantor as a matter of law or equity (other than the indefeasible payment in full in cash of the Guaranteed Obligations).

SECTION 10.04. Defenses Waived. To the fullest extent permitted by applicable law, each Loan Guarantor hereby waives any defense based on or arising out of any defense of the Borrower or any Loan Guarantor or the unenforceability of all or any part of the Guaranteed Obligations from any cause, or the cessation from any cause of the liability of the Borrower or any Loan Guarantor, other than the indefeasible payment in full in cash of the Guaranteed Obligations. Without limiting the generality of the foregoing, each Loan Guarantor irrevocably waives acceptance hereof, presentment, demand, protest and, to the fullest extent permitted by law, any notice not provided for herein, as well as any requirement that at any time any action be taken by any person against any Obligated Party, or any other person. The Administrative Agent may, at its election, foreclose on any Collateral held by it by one or more judicial or nonjudicial sales, accept an assignment of any such Collateral in lieu of foreclosure or otherwise act or fail to act with respect to any collateral securing all or a part of the Guaranteed Obligations, compromise or adjust any part of the Guaranteed Obligations, make any other accommodation with any Obligated Party or exercise any other right or remedy available to it against any Obligated Party, without affecting or impairing in any way the liability of such Loan Guarantor under this Loan Guaranty except to the extent the Guaranteed Obligations have been fully and indefeasibly paid in cash. To the fullest extent permitted by applicable law, each Loan Guarantor waives any defense arising out of any such election even though that election may operate, pursuant to applicable law, to impair or extinguish any right of reimbursement or subrogation or other right or remedy of any Loan Guarantor against any Obligated Party or any security.

SECTION 10.05. Rights of Subrogation. No Loan Guarantor will assert any right, claim or cause of action, including, without limitation, a claim of subrogation, contribution or indemnification that it has against any Obligated Party, or any collateral, until the Loan Parties and the Loan Guarantors have fully performed all their obligations to the Administrative Agent, the Issuing Bank and the Lenders.

SECTION 10.06. Reinstatement; Stay of Acceleration. If at any time any payment of any portion of the Guaranteed Obligations is rescinded or must otherwise be restored or returned upon the insolvency, bankruptcy, or reorganization of the Borrower or otherwise, each Loan Guarantor's obligations under this Loan Guaranty with respect to that payment shall be reinstated at such time as though the payment had not been made and whether or not the Administrative Agent, the Issuing Bank and the Lenders are in possession of this Loan Guaranty. If acceleration of the time for payment of any of the Guaranteed Obligations is stayed upon the insolvency, bankruptcy or reorganization of the Borrower, all such amounts otherwise subject to acceleration under the terms of any agreement relating to the Guaranteed Obligations shall nonetheless be payable by the Loan Guarantors forthwith on demand by the Lender.

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SECTION 10.07. Information. Each Loan Guarantor assumes all responsibility for being and keeping itself informed of the Borrower's financial condition and assets, and of all other circumstances bearing upon the risk of nonpayment of the Guaranteed Obligations and the nature, scope and extent of the risks that each Loan Guarantor assumes and incurs under this Loan Guaranty, and agrees that neither the Administrative Agent, the Issuing Bank nor any Lender shall have any duty to advise any Loan Guarantor of information known to it regarding those circumstances or risks.

SECTION 10.08. Termination. The Lenders may continue to make loans or extend credit to the Borrower based on this Loan Guaranty until five (5) days after it receives written notice of termination from any Loan Guarantor. Notwithstanding receipt of any such notice, each Loan Guarantor will continue to be liable to the Lenders for any Guaranteed Obligations created, assumed or committed to prior to the fifth day after receipt of the notice, and all subsequent renewals, extensions,

modifications and amendments with respect to, or substitutions for, all or any part of that Guaranteed Obligations.

SECTION 10.09. Taxes. All payments of the Guaranteed Obligations will be made by each Loan Guarantor free and clear of and without deduction for any Indemnified Taxes or Other Taxes; provided that if any Loan Guarantor shall be required to deduct any Indemnified Taxes or Other Taxes from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the Administrative Agent, Lender or Issuing Bank (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) such Loan Guarantor shall make such deductions and (iii) such Loan Guarantor shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

SECTION 10.10. Maximum Liability. The provisions of this Loan Guaranty are severable, and in any action or proceeding involving any state corporate law, or any state, federal or foreign bankruptcy, insolvency, reorganization or other law affecting the rights of creditors generally, if the obligations of any Loan Guarantor under this Loan Guaranty would otherwise be held or determined to be avoidable, invalid or unenforceable on account of the amount of such Loan Guarantor's liability under this Loan Guaranty, then, notwithstanding any other provision of this Loan Guaranty to the contrary, the amount of such liability shall, without any further action by the Loan Guarantors or the Lenders, be automatically limited and reduced to the highest amount that is valid and enforceable as determined in such action or proceeding (such highest amount determined hereunder being the relevant Loan Guarantor's "Maximum Liability"). This Section with respect to the Maximum Liability of each Loan Guarantor is intended solely to preserve the rights of the Lenders to the maximum extent not subject to avoidance under applicable law, and no Loan Guarantor nor any other person or entity shall have any right or claim under this Section with respect to such Maximum Liability, except to the extent necessary so that the obligations of any Loan Guarantor hereunder shall not be rendered voidable under applicable law. Each Loan Guarantor agrees that the Guaranteed Obligations may at any time and from time to time exceed the Maximum Liability of each Loan Guarantor without impairing this Loan Guaranty or affecting the rights and remedies of the Lenders hereunder; provided that, nothing in this sentence shall be construed to increase any Loan Guarantor's obligations hereunder beyond its Maximum Liability.

SECTION 10.11. Contribution. In the event any Loan Guarantor (a "Paying Guarantor") shall make any payment or payments under this Loan Guaranty or shall suffer any loss as a result of any realization upon any collateral granted by it to secure its obligations under this Loan Guaranty, each other Loan Guarantor (each a "Non-Paying Guarantor") shall contribute to such Paying Guarantor an amount equal to such Non-Paying Guarantor's "Applicable Percentage" of such payment or payments made, or losses suffered, by such Paying Guarantor. For purposes of this Article X, each Non-Paying Guarantor's "Applicable Percentage" with respect to any such payment or loss by a Paying Guarantor shall be determined as of the date on which such payment or loss was made by reference to the ratio of (i) such

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Non-Paying Guarantor's Maximum Liability as of such date (without giving effect to any right to receive, or obligation to make, any contribution hereunder) or, if such Non-Paying Guarantor's Maximum Liability has not been determined, the aggregate amount of all monies received by such Non-Paying Guarantor from the Borrower after the date hereof (whether by loan, capital infusion or by other means) to (ii) the aggregate Maximum Liability of all Loan Guarantors hereunder (including such Paying Guarantor) as of such date (without giving effect to any right to receive, or obligation to make, any contribution hereunder), or to the extent that a Maximum Liability has not been determined for any Loan Guarantor, the aggregate amount of all monies received by such Loan Guarantors from the Borrower after the date hereof (whether by loan, capital infusion or by other means). Nothing in this provision shall affect any Loan Guarantor's several liability for the entire amount of the Guaranteed Obligations (up to such Loan Guarantor's Maximum Liability). Each of the Loan Guarantors covenants and agrees that its right to receive any contribution under this Loan Guaranty from a Non-Paying Guarantor shall be subordinate and junior in right of payment to the payment in full in cash of the Guaranteed Obligations. This provision is for the benefit of both the Administrative Agent, the Issuing Bank, the Lenders and the Loan Guarantors and may be enforced by any one, or more, or all of them in accordance with the terms hereof.

SECTION 10.12. Liability Cumulative. The liability of each Loan Party as a Loan Guarantor under this Article X is in addition to and shall be cumulative with all liabilities of each Loan Party to the Administrative Agent, the Issuing Bank and the Lenders under this Agreement and the other Loan Documents to which such Loan Party is a party or in respect of any obligations or liabilities of the other Loan Parties, without any limitation as to amount, unless the instrument or agreement evidencing or creating such other liability specifically provides to the contrary.

[Signature Pages Follow]

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

ETHAN ALLEN GLOBAL, INC.,  
as the Borrower

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

ETHAN ALLEN INTERIORS INC.

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

Signature Page to Credit Agreement  
Ethan Allen Global, Inc.

ETHAN ALLEN OPERATIONS, INC.

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

ETHAN ALLEN REALTY, LLC

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

ETHAN ALLEN RETAIL, INC.

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

LAKE AVENUE ASSOCIATES, INC.

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

MANOR HOUSE, INC.

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

Signature Page to Credit Agreement  
Ethan Allen Global, Inc.

JPMORGAN CHASE BANK, N.A., individually as a Lender, as the Swingline  
Lender, as the Issuing Bank and as Administrative Agent

By: /s/ Joseph A. Lisack  
Name: Joseph A. Lisack  
Title: Vice President

Signature Page to Credit Agreement  
Ethan Allen Global, Inc.

CAPITAL ONE LEVERAGE FINANCE CORP.,

By: /s/ Nick Malatestinic  
Name: Nick Malatestinic  
Title: SVP

Signature Page to Credit Agreement  
Ethan Allen Global, Inc.

**SCHEDULE 2.01**

**COMMITMENTS**

<b>Lender</b>	<b>Commitment</b>
JPMorgan Chase Bank, N.A	\$ 25,000,000
Capital One Leverage Finance Corp.	\$ 15,000,000
<b>Aggregate Commitment:</b>	<b>\$ 40,000,000</b>

**SCHEDULE 2.06**

**EXISTING LETTERS OF CREDIT**

<b>JPMorgan Chase Bank Letter of Credit Number</b>	<b>Outstanding Amount</b>	<b>Expiry / Maturity Date</b>	<b>Beneficiary Name</b>
T-244580	\$ 579,174.00	AUG 19, 2009	INSURANCE COMPANY OF NORTH AMERICA
T-249589	\$ 11,300,000.00	JUL 12, 2010	THE TRAVELERS INDEMNITY COMPANY
T-250558	\$ 300,000.00	AUG 19, 2009	U.S. BANK NATIONAL ASSOCIATION
TPTS-233492	\$ 15,000.00	OCT 31, 2009	SOUTHGATE WATER AND
TPTS-277995	\$ 3,500.00	DEC 31, 2009	SOUTHEAST METRO STORMWATER

TPTS-312139	\$	49,517.10	FEB 28, 2010	CITY OF CENTENNIAL
TPTS-334627	\$	10,734.00	MAR 31, 2010	CITY OF BROOKFIELD
TPTS-334723	\$	1,867.00	MAR 31, 2010	CITY OF BROOKFIELD
TPTS-344509	\$	7,000.00	JUL 31, 2009	SOUTHGATE WATER DISTRICT
TPTS-344510	\$	2,960.00	JUL 31, 2009	SOUTHGATE SANITATION DISTRICT
TPTS-380846	\$	36,000.00	AUG 31, 2009	CITY OF PALM BEACH GARDENS
TPTS-381645	\$	10,000.00	AUG 31, 2009	TORGERSON PROPERTIES, INC
TPTS-674070	\$	135,000.00	AUG 31, 2009	CITY OF ARTESIA
TTTS-259870	\$	9,000.00	MAY 31, 2010	COUNTY OF PULASKI

ETHAN ALLEN INTERIORS INC. HAS CLAIMED CONFIDENTIAL TREATMENT OF PORTIONS OF THIS DOCUMENT IN ACCORDANCE WITH RULE 24-B UNDER THE SECURITIES EXCHANGE ACT OF 1934

**SCHEDULE 3.06**

To Credit Agreement

**Disclosed Matters (Litigation)**

**List of Pending or Threatened Litigation in Excess of \$1,000,000**

\*

\*CONFIDENTIAL INFORMATION HAS BEEN OMITTED AND FURNISHED SEPARATELY TO THE COMMISSION

**SCHEDULE 3.14**

To Credit Agreement

**Insurance**

**SEE ATTACHED**

**Schedule of Insurance**

Lockton - NY  
7 Times Square, Suite 3802  
New York, NY 10036  
Phone: 646-572-7300

**Property**

Ethan Allen Interiors, Inc  
Ethan Allen Drive, PO Box 1966  
Danbury, CT 06813

Coverage	Amount or Limits	Location	Policy Term	Company	Policy Number
All Risk - Manufacturing	*	All Manufacturing and distribution locations as on file.	7/1/2008 - 09	Zurich	*
All Risk - Retail	*	All Retail locations as on file.	7/1/2008 - 09	Travelers	*
Flood	*	Rough Mill 27 Railroad Ave. Orleans, VT 05860	6/20/2008 - 09	Selective	*
Flood	*	Rub & Pack Building 27 Railroad Ave. Orleans, VT 05860	6/20/2008 - 09	Selective	*
Flood	*	Boiler House 27 Railroad Ave. Orleans, VT 05860	6/20/2008 - 09	Selective	*
Flood	*	Saw Mill 217 Main St. Beecher Falls, VT 05902	6/20/2008 - 09	Selective	*
Flood	*	Main Building 217 Main St. Beecher Falls, VT 05902	6/20/2008 - 09	Selective	*
Flood	*	1800 Banks Rd. Margate, FL 33063	6/28/2008 - 09	Selective	*
Flood	*	13680 Pines Blvd. Pembroke Pines, FL 33027	6/28/2008 - 09	Selective	*



Flood	*	5139 Manheim Pike East Petersburg, PA 17520	7/1/2008 - 09	Selective	*
Flood	*	16240 S. Tamiami Trl, Fort Myers, FL 33908	7/22/2008 - 09	Selective	*
Flood	*	Finish Mill 27 Railroad Ave. Orleans, VT 05860	7/1/2008 - 09	Selective	*
Flood	*	200 Murray Hill Parkway East Rutherford, NJ 07073	7/1/2008 - 09	Selective	*

\* CONFIDENTIAL INFORMATION HAS BEEN OMITTED AND FURNISHED SEPARATELY TO THE COMMISSION

This Record of Insurance is intended to be used as a quick reference; please refer to your actual policies for exact terms and conditions

Revised 5/21/2009

**SCHEDULE 3.14**

**SCHEDULE 3.15**  
To Credit Agreement

**Capitalization and Subsidiaries**

**SEE ATTACHED**

**ETHAN ALLEN**

Name of Entity	State of Domicile	Inc/Qual Date		Tax ID	Mailing Address of CEO and Principal Place of Business	Former Business Name	Current or Former Trade Name(s)	Owner & % of Ownership	Number of Shares Authorized to Issue
Ethan Allen Global, Inc.	DE	6/27/2005	*	20-2991357	Ethan Allen Drive, Danbury, CT 06811		Ethan Allen	Ethan Allen Interiors Inc. - 100% (100 shares)	1,000 - \$0.01 par value per share
Ethan Allen Retail, Inc.	DE	6/16/1989	*	06-1273300	Ethan Allen Drive, Danbury, CT 06811	Changed Name 6/29/05 from Ethan Allen Inc.	Ethan Allen, Ethan Allen Home Interiors	Ethan Allen Global, Inc. - 100%	1,000 - \$0.01 par value per share
Ethan Allen Interiors Inc.	DE	5/25/1989	*	06-1275288	Ethan Allen Drive, Danbury, CT 06811			Publicly Held	151,655,000 (see footnote 1 below)
Ethan Allen Operations, Inc.	DE	12/27/1994	*	06-1420986	Ethan Allen Drive, Danbury, CT 06811	Ethan Allen Manufacturing Corporation; Name change filed 8/19/05	Ethan Allen Manufacturing Corporation	Ethan Allen Global, Inc. - 100%	1,000 - \$0.01 par value per share
Ethan Allen Realty, LLC	DE	6/24/2005	*	06-1753714	Ethan Allen Drive, Danbury, CT 06811			Ethan Allen Operations, Inc. - 100%	None
Lake Avenue Associates, Inc.	CT	11/2/1973	*	06-0901325	Ethan Allen Drive, Danbury, CT 06811		Ethan Allen Hotel	Ethan Allen Global, Inc. - 100% (250 shares)	500 (see footnote 2 below)
Manor House, Inc.	DE	10/4/1974	*	06-0919150	Ethan Allen Drive, Danbury, CT 06811			Ethan Allen Retail, Inc. - 100%	1,000 - \$100 par value per share
Excluded Subsidiaries: Ethan Allen (UK) Ltd. (currently undergoing liquidation/dissolution), Cut and Sew Manufacturing Operations, S de R.L. de C.V., Cut and Sew Manufacturing Realty, S. de R.L. de C.V., Ethan Allen (Canada) Inc., Ethan Allen Carriage Ho									Footnote 1 - 150,000,000 - Common Stock - \$.01 par value per share; 600,000 Class B Common Stock - \$.01 par value per share; and 1,055,000 Preferred Stock - \$0.01 par value per share
									Footnote 2 - 250 Class A Common Stock - \$10 par value per share; and 250 Class B Common Stock - \$10.00 par value per share

\* CONFIDENTIAL INFORMATION HAS BEEN OMITTED AND FURNISHED SEPARATELY TO THE COMMISSION

**SCHEDULE 3.15**

**SCHEDULE 3.21**  
To Credit Agreement

**Credit Card Processors**

Name and Address of Processing Agents for Ethan Allen

- A. American Express  
American Express Travel Related Services Company, Inc.  
World Financial Center  
New York, NY 10285  
Kim Goodman, Executive Vice President Merchant Services, North America
- B. Elavon  
One Concourse Parkway, Suite 200  
Atlanta, Georgia
- C. Paymentech LLC (Credit Card and Gift Cards)  
4221 Dallas Parkway  
Dallas, Texas 75254
- D. G.E. Money Bank  
950 Forrer Boulevard  
Kettering, Ohio 45420  
Attn: Paul Beekman

#### SCHEDULE 6.01

##### Existing Indebtedness

1. Western Pennsylvania Teamsters and Employers Pension Fund - Notice of Withdrawal and Demand for Payment of Withdrawal Liability (related to a closed facility). \$0.38 million, matures 01/01/23.
2. 10-year Senior Unsecured Notes - \$200 million, matures 10/1/15
3. Ethan Allen Hotel IRB (US Bank) - \$4 million, matures 6/1/11
4. Beecher Falls - Town of Cannan (Building) - \$0.3 million, matures 10/15/26
5. Beecher Falls - Town of Cannan (M&E) - \$0.4 million, matures 10/15/11
6. Private Label Consumer Credit Card Program Agreement with GE (imbedded guarantee)
7. Fratco Bank subordination agreement / guarantee inventory repurchase of up to \$0.9 million
8. Letters of Credit outstanding of \$12.5 million (see schedule 2.06)
9. Obligations to pay M Farooq Kathwari under past and present employment agreements

#### SCHEDULE 6.02

##### To Credit Agreement

##### Existing Liens

- I. See Attached UCC Lien Search Summary (as of April 20, 2009)
- II. Town of Canaan Loans – Security Agreement dated 26<sup>th</sup> day of June 1996 – Balance as of 3/31/09 is \$306,218 (\$224,820 maturity date 10/15/2026 (Building); \$81,398 maturity date 10/15/11 (Machinery and Equipment))
- III. Connecticut Development Authority – Indenture dated May 1, 1993. Payment of interest only on outstanding debt of \$3,855,000. Maturity date 6/1/11.

#### ETHAN ALLEN UCC LIEN SEARCH SUMMARY AS OF APRIL 20, 2009

Secured Party	File Number	File Date	Filing Type	Filing Jurisdiction and Office	Collateral Description
<b>I. ETHAN ALLEN GLOBAL, INC.</b>					
IBM Credit LLC	54051869	12/29/2005	UCC-1	Secretary of State of the State of Delaware	Specific Equipment
	74088208	10/29/2007	UCC-1	Secretary of State of the State of Delaware	Specific Equipment
	74125901	10/30/2007	UCC-1	Secretary of State of the State of Delaware	Specific Equipment
	900119601	1/5/2009	UCC-1	Secretary of State of the State of Delaware	Specific Equipment
NMHG Financial Services Inc.	63315983	9/26/2006	UCC-1	Secretary of State of the State of Delaware	Specific Equipment
GE Money Bank	71109783	3/26/2007	UCC-1	Secretary of State of the State of Delaware	Informational filing against all of the Debtor's rights in the Secured Party's property and related accounts, indebtedness and related documentation with respect to the credit card program offered by the Secured Party through the Debtor.
	72945060	8/2/2007	Amendment	Secretary of State of the State of Delaware	Amendment and restatement of collateral description

Banc of America Leasing & Capital, LLC	72108727	6/5/2007	UCC-1	Secretary of State of the State of Delaware	Specific Equipment
	72361706	6/21/2007	UCC-1	Secretary of State of the State of Delaware	Specific Equipment
	72803020	7/25/2007	UCC-1	Secretary of State of the State of Delaware	Specific Equipment
	73112546	8/15/2007	UCC-1	Secretary of State of the State of Delaware	Specific Equipment
	73910824	10/17/2007	UCC-1	Secretary of State of the State of Delaware	Specific Equipment
	74234364	11/6/2007	UCC-1	Secretary of State of the State of Delaware	Specific Equipment
	74417597	11/20/2007	UCC-1	Secretary of State of the State of Delaware	Specific Equipment
	74648555	12/10/2007	UCC-1	Secretary of State of the State of Delaware	Specific Equipment
	80199198	1/16/2008	UCC-1	Secretary of State of the State of Delaware	Specific Equipment
	81976958	6/10/2008	UCC-1	Secretary of State of the State of Delaware	Specific Equipment
	82803110	8/15/2008	UCC-1	Secretary of State of the State of Delaware	Specific Equipment
	82891370	8/25/2008	UCC-1	Secretary of State of the State of Delaware	Specific Equipment
	82902623	8/26/2008	UCC-1	Secretary of State of the State of Delaware	Specific Equipment
	82933107	8/28/2008	UCC-1	Secretary of State of the State of Delaware	Specific Equipment
	83293873	9/29/2008	UCC-1	Secretary of State of the State of Delaware	Specific Equipment

Secured Party	File Number	File Date	Filing Type	Filing Jurisdiction and Office	Collateral Description
Bashian Bros., Inc.	74919105	12/26/2007	UCC-1	Secretary of State of the State of Delaware	Informational filing against oriental rugs held on consignment basis.
General Electric Capital Corp.	82961645	9/2/2008	UCC-1	Secretary of State of the State of Delaware	Specific Equipment

## II. ETHAN ALLEN INTERIORS INC.

No UCC filings found by search with Secretary of State of the State of Delaware.

## III. ETHAN ALLEN OPERATIONS, INC.

No UCC filings found by search with Secretary of State of the State of Delaware.

## IV. ETHAN ALLEN REALTY, LLC

No UCC filings found by search with Secretary of State of the State of Delaware.

## V. ETHAN ALLEN RETAIL, INC.

GE Money Bank	71109783	3/26/2007	UCC-1	Secretary of State of the State of Delaware	Informational filing against all of the Debtor's rights in the Secured Party's property and related accounts, indebtedness and related documentation with respect to the credit card program offered by the Secured Party through the Debtor.
	72945060	8/2/2007	Amendment	Secretary of State of the State of Delaware	Amendment and restatement of collateral description

## VI. LAKE AVENUE ASSOCIATES, INC.

No UCC filings found by search with Secretary of State of the State of Connecticut.

## VII. MANOR HOUSE, INC.

No UCC filings found by search with Secretary of State of the State of Delaware.

### Ethan Allen Interiors Inc.

ABL Revolver - May 2009 (data as of 3/31/09 in millions)

#### Schedule 6.04

#### Existing Investments, Loans and Advances

Investments	Loans & Advances
-------------	------------------

Ethan Allen Canada	\$	4.4	\$	3.9
Lake Ave Assoc (EA Hotel)	\$	0.7	\$	1.8
Cut & Sew - Mexico	\$	3.1	\$	0.4
Cash & Cash Equivalents (Permitted Investments):				
JPMorgan		*		
Citizens		*		
PNC		*		
Wachovia		*		
BoA		*		
Scotia		*		
Other		*		
	\$	51.2		
Notes Receivable:				
*				*
*				*
*				*
*				*
	\$			0.7

\* CONFIDENTIAL INFORMATION HAS BEEN OMITTED AND FURNISHED SEPARATELY TO THE COMMISSION

**SCHEDULE 6.10**  
To Credit Agreement

**Existing Restrictions**

1. None

EXHIBIT A

ASSIGNMENT AND ASSUMPTION

This Assignment and Assumption (the "Assignment and Assumption") is dated as of the Effective Date set forth below and is entered into by and between [Insert name of Assignor] (the "Assignor") and [Insert name of Assignee] (the "Assignee"). Capitalized terms used but not defined herein shall have the meanings given to them in the Credit Agreement identified below (as amended, the "Credit Agreement"), receipt of a copy of which is hereby acknowledged by the Assignee. The Standard Terms and Conditions set forth in Annex 1 attached hereto are hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, the Assignor hereby irrevocably sells and assigns to the Assignee, and the Assignee hereby irrevocably purchases and assumes from the Assignor, subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date inserted by the Administrative Agent as contemplated below (i) all of the Assignor's rights and obligations in its capacity as a Lender under the Credit Agreement and any other documents or instruments delivered pursuant thereto to the extent related to the amount and percentage interest identified below of all of such outstanding rights and obligations of the Assignor under the respective facilities identified below (including any letters of credit, guarantees, and swingline loans included in such facilities) and (ii) to the extent permitted to be assigned under applicable law, all claims, suits, causes of action and any other right of the Assignor (in its capacity as a Lender) against any Person, whether known or unknown, arising under or in connection with the Credit Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including contract claims, tort claims, malpractice claims, statutory claims and all other claims at law or in equity related to the rights and obligations sold and assigned pursuant to clause (i) above (the rights and obligations sold and assigned pursuant to clauses (i) and (ii) above being referred to herein collectively as the "Assigned Interest"). Such sale and assignment is without recourse to the Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by the Assignor.

1. Assignor:
2. Assignee:  
[and is an Affiliate/Approved Fund of [identify Lender](1)]
3. Borrower: Ethan Allen Global, Inc.
4. Administrative Agent: JPMorgan Chase Bank, N.A., as the administrative agent under the Credit Agreement
5. Credit Agreement: The Credit Agreement dated as of May 29, 2009 among Ethan Allen Global, Inc., the other Loan Parties parties thereto, the Lenders parties thereto and JPMorgan Chase Bank, N.A., as Administrative Agent.

(1) Select as applicable.

6. Assigned Interest:

Facility Assigned(2)	Aggregate Amount of Commitment/Loans for all Lenders	Amount of Commitment/Loans Assigned	Percentage Assigned of Commitment/Loans(3)
	\$	\$	%
	\$	\$	%
	\$	\$	%

Effective Date: \_\_\_\_\_, 20 \_\_\_\_ [TO BE INSERTED BY ADMINISTRATIVE AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

The Assignee agrees to deliver to the Administrative Agent a completed Administrative Questionnaire in which the Assignee designates one or more Credit Contacts to whom all syndicate-level information (which may contain material non-public information about the Borrower, the Loan Parties and their Related Parties or their respective securities) will be made available and who may receive such information in accordance with the Assignee's compliance procedures and applicable laws, including Federal and state securities laws.

The terms set forth in this Assignment and Assumption are hereby agreed to:

ASSIGNOR

[NAME OF ASSIGNOR]

By: \_\_\_\_\_  
Title: \_\_\_\_\_

ASSIGNEE

[NAME OF ASSIGNEE]

By: \_\_\_\_\_  
Title: \_\_\_\_\_

- (2) Fill in the appropriate terminology for the types of facilities under the Credit Agreement that are being assigned under this Assignment.  
(3) Set forth, to at least 9 decimals, as a percentage of the Commitment/Loans of all Lenders thereunder.

[Consented to and](4) Accepted:

JPMORGAN CHASE BANK, N.A., as  
Administrative Agent and as Issuing Bank

By \_\_\_\_\_  
Title: \_\_\_\_\_

[Consented to:](5)

ETHAN ALLEN GLOBAL, INC.

By \_\_\_\_\_  
Title: \_\_\_\_\_

- (4) To be added only if the consent of the Administrative Agent and/or the Issuing Bank is required by the terms of the Credit Agreement.  
(5) To be added only if the consent of the Borrower is required by the terms of the Credit Agreement.

ANNEX 1

## STANDARD TERMS AND CONDITIONS FOR ASSIGNMENT AND ASSUMPTION

### 1. Representations and Warranties.

1.1 Assignor. The Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of the Assigned Interest, (ii) the Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Credit Agreement or any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any collateral thereunder, (iii) the financial condition of the Borrower, any of its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (iv) the performance or observance by the Borrower, any of its Subsidiaries or Affiliates or any other Person of any of their respective obligations under any Loan Document.

1.2. Assignee. The Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) it satisfies the requirements, if any, specified in the Credit Agreement that are required to be satisfied by it in order to acquire the Assigned Interest and become a Lender, (iii) from and after the Effective Date, it shall be bound by the provisions of the Credit Agreement as a Lender thereunder and, to the extent of the Assigned Interest, shall have the obligations of a Lender thereunder, (iv) it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered pursuant to Section thereof, as applicable, and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase the Assigned Interest on the basis of which it has made such analysis and decision independently and without reliance on the Administrative Agent or any other Lender, and (v) if it is a Foreign Lender, attached to the Assignment and Assumption is any documentation required to be delivered by it pursuant to the terms of the Credit Agreement, duly completed and executed by the Assignee; and (b) agrees that (i) it will, independently and without reliance on the Administrative Agent, the Assignor or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender.

2. Payments. From and after the Effective Date, the Administrative Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other amounts) to the Assignor for amounts which have accrued to but excluding the Effective Date and to the Assignee for amounts which have accrued from and after the Effective Date.

3. General Provisions. This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment and Assumption by facsimile shall be effective as delivery of a manually executed counterpart of this Assignment and Assumption. This Assignment and Assumption shall be construed in accordance with and governed by the law of the State of New York, but giving effect to federal laws applicable to national banks.

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EXHIBIT B

OPINION OF LOAN PARTIES' COUNSEL

[Attached]

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May 29, 2009

To the Lenders and the Administrative  
Agent Referred to Below  
c/o JPMorgan Chase Bank, N.A.  
As Administrative Agent  
270 Park Avenue  
New York, New York 10017

Ladies and Gentlemen:

We have acted as special counsel to Ethan Allen Interiors Inc., a Delaware corporation ("Holdings"), and certain of its subsidiaries, including Ethan Allen Global, Inc., a Delaware corporation (the "Borrower"), Ethan Allen Retail, Inc., a Delaware corporation ("Retail"), Ethan Allen Operations, Inc., a Delaware corporation ("Operations"), Lake Avenue Associates, Inc., a Connecticut corporation ("Lake Avenue"), Manor House, Inc., a Delaware corporation ("Manor House"), Ethan Allen Realty, LLC, a Delaware limited liability company ("Realty"), and collectively with Holdings, the Borrower, Retail, Operations, Lake Avenue, and Manor House, the "Loan Parties") in connection with Credit Agreement dated as of May 29, 2009, (the "Credit Agreement") among the Borrower, Holdings, the other Loan Parties party thereto, JPMorgan Chase Bank, N.A., a national banking association, in its capacity as contractual representative (the "Administrative Agent"), and the Lenders party thereto (the "Lenders"). This opinion is delivered to you at the request of Holdings and the Borrower pursuant to Section 4.01 of the Credit Agreement. Unless otherwise indicated herein, capitalized terms used herein and not defined herein shall have the meanings given to them in the Credit Agreement.

In connection with this opinion, we have examined and relied upon copies, certified or otherwise identified to our satisfaction, of (i) the Credit Agreement, (ii) the Pledge and Security Agreement, dated as of May 29, 2009 (the "Security Agreement"), among Holdings, the Borrower, the other Loan Parties, and the Administrative Agent for itself and for the Lenders, (iii) the Financing Statements (as hereinafter defined), related to the security interests granted by the Loan Parties pursuant to the Security Agreement, and (iv) such other

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records, agreements, certificates and instruments, and information from officers and other representatives of the Loan Parties and governmental and regulatory officials as we have deemed necessary as a basis for this opinion. The documents described in clauses (i) and (ii) of the immediately preceding sentence are sometimes referred to herein as the "Agreements."

In our examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity of any documents submitted to us as copies to their respective originals, the authenticity of the originals of such copies and the legal capacity of all natural persons. We have also assumed, with your consent and without undertaking, or having any duty to undertake, any independent investigation or inquiry, that the representations, warranties and statements as to factual matters (except any of the foregoing expressly covered by the opinions set forth below) made in the Credit Agreement and the Security Agreement by the Loan Parties or in the respective certificates of the Loan Parties and their respective officers mentioned above, are true and correct and have assumed the compliance by each of the Lenders and the Administrative Agent with the terms of the Agreements to which it is a party.

In rendering the opinions expressed below, we have assumed the following:

- (a) the accuracy and completeness of all reports and certificates received from public officials and others;
- (b) the absence of fraud, misrepresentation, omission or deceit on the part of any party to the Agreements;
- (c) the absence of any mutual mistake of fact or misunderstanding, duress or undue influence involved in the negotiation, execution, delivery or performance of the Agreements;

(d) neither the Administrative Agent or any Lender nor any of the representatives of any thereof has any notice or knowledge (actual or constructive) of any adverse claim, lien, security interest, encumbrance, interest or other condition of title affecting any investment property or instruments (as each such term is defined in Article 9-102 of the UCC, as hereinafter defined) that are part of the Collateral;

(e) all items of Collateral for which possession must be taken by a secured party in order to perfect its security interest under Section 9-313 of the Uniform Commercial Code of New York (the "New York UCC") or the Uniform Commercial Code of Delaware (the "Delaware UCC") or the Uniform Commercial Code of Connecticut (Connecticut UCC"), and collectively with the New York UCC and the Delaware UCC, the "UCC") shall be in the possession or constructive possession of the Administrative Agent and not in the possession of any Loan Party, or any Affiliate, agent or any other Person acting on behalf of any Loan Party;

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(f) each Loan Party has acquired good and sufficient title to each existing item of Collateral existing on the date hereof and has "rights" in and to such Collateral within the meaning of Section 9-203 of the UCC consistent with and sufficient for purposes of the Agreements, and the same will be true of each item of Collateral arising after the date hereof;

(g) the Collateral is (A) either located in the State of New York or is of a type as to which the creation and enforcement of a security interest therein is governed solely by Article 9 of the New York UCC and (B) except as expressly stated in paragraph (5) below, is of a type as to which a security interest can be perfected solely by filing a financing statement; and

(h) each Loan Party has received legally sufficient consideration and that "value" (as defined in Section 1-201 of the UCC) "has been given" (as required by Section 9-203 of the UCC) for the execution of the Agreements to which it is a party and the granting of security interests in its property pursuant thereto.

We have also assumed that there is no other agreement or understanding among the parties to the Agreements, written or oral, or any waiver of a right or remedy, or any usage of trade or course of dealing between the parties to each of the Agreements, that would, in any case, modify, define, supplement or qualify any of the terms of the Agreements.

As to various questions of fact material to the opinions rendered herein, we have relied upon the statements, representations and warranties in the documents examined by us, and nothing has come to our attention which would indicate that we are not justified in relying on such statements, representations and warranties. We have assumed the due execution and delivery, pursuant to due authorization, of the documents that we have examined by each party thereto, that each such party is existing and (to the extent applicable) in good standing under the laws of its jurisdiction of organization or formation and has the full power, authority and legal right to enter into and perform its obligations under each such document to which it is a party, and that all necessary consents, licenses, approvals, authorizations, registrations, declarations, filings and other acts (governmental or otherwise) and all other conditions precedent with respect to the legal and valid execution and delivery of, and performance under, the documents that we have examined by each party thereto, in each case other than, with respect to the laws of the State of New York, each of the Loan Parties, have been made or satisfied or have occurred and are in full force and effect. We have also assumed that all of the documents we have examined are binding and enforceable obligations of each party thereto other than the Loan Parties.

We do not assume any responsibility for the accuracy, completeness or fairness of any information, including, but not limited to, financial information, furnished to you by any of the Loan Parties or any of their Affiliates concerning the business, assets and affairs of the Loan Parties or any of their Affiliates or any other information furnished to you by or on behalf of any of the Loan Parties or any of their Affiliates or furnished by us to you, except for our conclusions of law in this opinion letter.

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References in this opinion to our "knowledge" or "known to us" or similar phrases mean the actual knowledge (i.e., conscious awareness) of the attorneys currently in this firm who our records indicate have devoted substantive attention to matters directly relating to the Agreements and the transactions contemplated thereby, and mean that such attorneys have not been informed by the Loan Parties that the matters stated are factually incorrect and have no actual knowledge (i.e., conscious awareness) that the matters stated are factually incorrect. Except as expressly set forth herein, we have not undertaken any independent investigation, examination, or inquiry to determine the existence or absence of any facts (and have not caused the review of any court file or indices) and no inference as to our knowledge concerning any facts should be drawn as a result of the limited representation undertaken by us.

We express no opinion on any matter not specifically set forth herein and we understand that you are relying upon, and receiving contemporaneously with the delivery of this opinion, the legal opinion of Pamela A. Banks of Holdings (the "Other Opinion"), addressing various matters set forth therein and that you are not relying upon us with respect to matters covered in the Other Opinion. In rendering this opinion, we have relied upon the Other Opinion solely as to the matters opined upon in the Other Opinion.

Based upon and subject to the foregoing, and to the limitations and qualifications stated herein, it is our opinion that:

(1) Assuming due authorization, execution and delivery thereof by the parties thereto, each of the Credit Agreement and the Security Agreement is a valid and legally binding agreement of each Loan Party that is a party thereto, enforceable against it in accordance with its terms.

(2) No Lender is required to obtain or effect any registration or filing with, consent or approval of or other action by any Governmental Authority of the United States of America or the State of New York in connection with the transactions contemplated by the Credit Agreement and the Security Agreement, other than (a) such filings, registrations, consents, approvals and other actions which may be required in order to perfect the liens and security interests granted pursuant to the Credit Agreement and the Security Agreement and (b) those that have been made or obtained and are in full force and effect or as to which the failure to be made or obtained or to be in full force and effect would not reasonably be expected to result, individually or in the aggregate, in a Material Adverse Effect.

(3) Under the New York UCC, the Security Agreement is effective to create in favor of the Administrative Agent, for the benefit of the Secured Parties, a valid security interest in the Collateral described therein, to the extent that the creation of security interests in the Collateral is governed by Article 9 of the New York UCC.

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(4) The UCC-1 financing statements (the "Financing Statements") in the forms attached as Annex A hereto are in appropriate form for filing in the office of the Secretary of the State of the jurisdiction of incorporation or organization of the Loan Parties indicated on Exhibit B (the "Filing Offices"). Upon filing and proper indexing of the Financing Statements in the Filing Offices of the jurisdiction of incorporation or organization of each Loan Party, the security interest of the Administrative Agent, for the benefit of the Secured Parties, in the Collateral described therein will be perfected under the Uniform Commercial Code in effect in the states of incorporation or organization indicated on Exhibit B of such Loan Parties (the "State UCCs") to the extent that a security interest in such Collateral can be perfected by the filing of a financing statement in the Filing Offices (such Collateral, "Article 9 Collateral").

(5) Under the New York UCC, the execution and delivery of the Security Agreement, together with delivery and the continued possession by the



Administrative Agent, in the State of New York, of certificates evidencing all Collateral consisting of instruments or investment property, issued or endorsed in the name of the Administrative Agent, or in blank or together with stock powers or other instruments of transfer properly executed in the name of the Administrative Agent, or in blank with respect thereto, will create a valid and duly perfected lien on and a security interest in such Collateral pledged on the date hereof under the Security Agreement. Subject to the limitations contained in Section 9-331 of the New York UCC, the Administrative Agent will acquire such lien and security interest free of adverse claims (as defined in Section 8-102 of the New York UCC).

(6) None of the Loan Parties is an “investment company” as defined in, or subject to regulation under, the Investment Company Act of 1940, as amended.

The foregoing opinions are subject to the following limitations and qualifications:

The opinions set forth in the numbered paragraphs above are subject to the following limitations and qualifications:

(a) Except as expressly set forth in paragraph 4 above, we express no opinion concerning any law of any jurisdiction other than (i) the laws of the State of New York, (ii) the laws of the State of Connecticut and (iii) the Federal laws of the United States of America. Without limiting the foregoing, we express no opinion with respect to the applicability or the effect of the laws of any other jurisdiction, municipal laws or rules, ordinances, regulations or orders of any agency within any state or municipality. Our opinions set forth below are based upon our consideration of those statutes, rules and regulations which, in our experience, are normally applicable to the transactions contemplated by the Agreements.

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(b) We express no opinion with respect to the enforceability of any agreement, contract or document or any provision thereof (i) to the extent such enforceability may be subject to, or affected by, applicable bankruptcy, insolvency, reorganization, receivership, moratorium, arrangement, assignment for the benefit of creditors or similar laws affecting the rights and remedies of creditors generally (including, without limitation, fraudulent transfer or conveyance laws) and judicially developed doctrines relevant to any such laws and which are in effect at the time when enforcement is sought or general principles of equity (regardless of whether enforceability is considered in a proceeding at law or in equity), including, without limitation, commercial reasonableness, good faith and fair dealing and the requirement that the right, remedy or penalty sought be proportionate to the breach, default or injury, (ii) to the extent that such enforceability may be affected by requirements as to compliance with, and limitations imposed by, procedural requirements relating to the exercise of remedies, (iii) providing for specific performance, injunctive relief or other equitable remedies, regardless of whether such enforceability is sought in a proceeding in equity or at law, (iv) to the extent such enforceability may be limited by Article 9 of the UCC as in effect on the date hereof limiting the right or ability of a person to waive or vary certain provisions of Article 9 of the UCC, (v) with respect to applicable law limiting certain rights and remedies of the Administrative Agent and the Lenders (but, assuming that the Administrative Agent and the Lenders act in accordance with the general principles of equity in enforcing their rights and remedies, the matters identified in this paragraph do not, in our opinion, render the Agreements invalid as a whole or substantially interfere with the realization by the Administrative Agent, for the benefit of the Secured Parties, of the principal benefits intended to be provided by the Credit Agreement and the Security Agreement), (vi) providing for indemnification and contribution, which provisions may be limited by applicable federal and state securities laws and general principles of public policy, (vii) requiring any waiver of stay or extension laws, diligent performance or other acts which may be unenforceable under principles of public policy, or (viii) providing for a choice of jurisdiction.

(c) We express no opinion with respect to the enforceability of any agreement, contract or document or any provision thereof (i) to the effect that failure to exercise or delay in exercising a right or remedy will not operate as a waiver of the right or remedy, (ii) releasing, exculpating or exempting a party from, or requiring indemnification of any Person for, liability for its own action or inaction, to the extent the action or inaction involves gross negligence, recklessness, willful misconduct or wrongful or unlawful conduct, (iii) purporting to preclude modification thereof through conduct, custom or course of performance, action or dealing, (iv) requiring the payment or reimbursement of

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fees, costs, expenses, or other amounts without regard to whether they are reasonable in nature or amount (v) that purportedly waives any right granted pursuant to statute which may not be legally waived or the effectiveness of any purported waiver by any Person of any right granted pursuant to statute which may not be legally waived.

(d) We express no opinion as to the enforceability of any agreement, contract or document or any provision thereof, with respect to (i) the choice of New York law in any action or proceeding in a Federal court or state court outside the State of New York, or in any action or proceeding in any forum outside the United States, (ii) any consent to jurisdiction of any Federal court, (iii) any consent to venue or an inconvenient forum, (iv) provisions which purport to change or alter the manner in which service of process may be effected under applicable law or (v) relate to setoffs in respect of participations purchased in Loans.

(e) We express no opinion as to compliance with applicable state and federal antifraud statutes, rules or regulations,

(f) We express no opinion as to compliance with applicable tax, environmental, pension, employee benefit, zoning, land use, anti-money laundering or antitrust statutes, laws, rules or regulations of state or federal law or any matters, statutes, regulations, laws or proceedings pertaining to patents, trademarks or copyrights.

(g) Any reference to performance of a document by a party means performance of the obligations of such party thereunder.

(h) With respect to the opinions in paragraphs 3, 4 and 5, the security interests of the Administrative Agent, for the benefit of the Secured Parties, are subject to or limited by (i) the requirement to file a continuation statement within six months before the fifth anniversary of the date of filing of the original financing statement perfecting a security interest, (ii) the requirement to file a new financing statement under the circumstances set forth in Section 9-316 or Section 9-507 of the UCC, (iii) the rights of purchasers and holders of instruments, documents and chattel paper under Section 9-330 and Section 9-331 of the UCC, (iv) the provisions of Section 9-315 of the UCC relating to proceeds, and (v) the rights of buyers of goods under Section 9-320 and 9-323 of the UCC. We express no opinion as to the creation, validity or enforceability of any security interests in consumer goods, motor vehicles, minerals, health-care-insurance receivables, commercial tort claims arising after the date hereof, claims arising in tort other than commercial tort claims or timber to be cut or growing crops.

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(i) in the case of property which becomes Collateral after the date hereof, Section 552 of Title 11 of the United States Code (the Bankruptcy Code) limits the extent to which property acquired by a debtor after the commencement of a case under the Bankruptcy Code may be subject to a security

interest arising from the Security Agreement entered into by the debtor before the commencement of such case;

(j) we express no opinion as to the validity or enforceability of any security interests in goods (as defined by the UCC) which have been bought by a buyer in the ordinary course of business (as defined in Section 1-201 of the UCC);

(k) We express no opinion with respect to any Person's rights in or title to any property or the priority of any security interest or lien created under the Agreements, including without limitation, the relative priority of any security interest or lien as against (i) any claim or lien in favor of the United States of America or any agency or instrumentality thereof (including, without limitation, federal tax liens and liens under Title IV of the Employee Retirement Income Security Act of 1974, as amended) or (ii) the claim of a lien creditor to the extent set forth in Section 9-317 of the New York UCC.

(l) In rendering the opinions in this paragraphs 3 and 4, insofar as they are based upon the State UCCs, with your consent, we have relied solely on our review of the CCH Secured Transactions Guide, without any investigation of the legal decisions or other statutory provisions in effect that may affect the interpretation of the State UCCs.

(m) Except as expressly set forth in paragraphs 3, 4 and 5, we express no opinion as to (i) the creation, validity or perfection of any security interest or lien, on any item of Collateral other than the Collateral existing on the date hereof and the Article 9 Collateral, (ii) the effect of perfection or priority purported to be created by any agreement, contract or document, or (iii) the sufficiency of the description of any collateral contained in any agreement, contract or document or any financing statements or other documents delivered in connection therewith. Without limiting the foregoing, we express no opinion as to the creation, validity or perfection of any security interest in (i) in any item of Collateral which is expressly excluded from the application of Article 9 of the UCC, (ii) in any item of Collateral which consists of fixtures (as defined in Section 9-102 of the UCC) or (iii) in any item of Collateral which is subject to (A) a statute or treaty of the United States which provides for a national or international registration or a national or international certificate of title for the perfection of a security interest therein or which specifies a place of filing

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different from that specified in the UCC for filing to perfect such security interest or (B) a certificate of title statute.

(n) We express no opinion as to the perfection of any security interest in any proceeds other than identifiable cash proceeds to the extent set forth in Section 9-315 of the New York UCC.

(o) We express no opinion as to (i) any provision of any agreement, contract or document which is intended (A) to establish any standard as the measure of the performance by any party thereto of such party's obligations of good faith, diligence, fair dealing, reasonableness or care or the fulfillment of the duties imposed on any secured creditor with respect to the disposition or redemption of collateral, accounting for surplus proceeds of collateral, or accepting collateral in discharge of liabilities owed to any creditor or unsecured creditor or (B) to permit modification thereof only by means of an agreement in writing signed by the parties thereto, (ii) any provision of any agreement, contract or document requiring payment of attorneys' fees, except to the extent that a court determines such fees to be reasonable, (iii) any provision of any agreement, contract or document insofar as it relates to post-judgment or default interest rates or interest rates or interest on overdue amounts, (iv) any provision of any agreement, contract or document which purports to require that any collateral or property be held in trust or imposes fiduciary duties on any party thereto and (v) the enforceability of any provision in any agreement, contract or document which provides for the appointment of a process agent for suits, actions or proceedings brought in the State of New York to the extent that such process agent is not located in the State of New York.

This opinion is being furnished to you solely for your benefit in connection with the Credit Agreement. This opinion may not be relied upon by you for any other purpose or relied upon by any other Person without our prior written consent. At your request, we hereby consent to reliance hereon by any assignee under the Credit Agreement pursuant to an assignment that is made and consented to in accordance with the express provisions of the Credit Agreement, on the condition and understanding that (i) this letter speaks only as of the date hereof, (ii) we have no responsibility or obligation to update this letter, to consider its applicability or correctness to other than its addressee(s), or to take into account changes in law, facts or any other developments of which we may later become aware, and (iii) any such reliance by a future assignee must be actual and reasonable under the circumstances existing at the time of assignment, including any changes in law, facts or any other developments known to or

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reasonably knowable by the assignee at such time. Our opinions in this letter are based upon the facts in existence and the laws in effect on the date hereof. We have no obligation to update this opinion for events or changes in law or fact occurring after the date hereof.

Very truly yours,

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#### Annex A

##### Forms of UCC-1 Financing Statements

#### Annex B

##### Jurisdictions of Holdings, the Borrower and the Loan Parties(6)

Entity	Jurisdiction of Incorporation / Organization
Ethan Allen Interiors, Inc.	Delaware
Ethan Allen Global Inc.	Delaware
Ethan Allen Operations, Inc.	Delaware

Lake Avenue Associates, Inc.	Connecticut
Manor House, Inc.	Delaware
Ethan Allen Realty LLC	Delaware
Ethan Allen Retail, Inc.	Delaware

Writer's Direct Number: (203) 743-8496  
Writer's Direct Facsimile: (203) 743-8254

# OPINION OF COUNSEL FOR THE LOAN PARTIES

May 29, 2009

To the Lenders and the Administrative  
Agent Referred to Below  
c/o JPMorgan Chase Bank N.A., as  
Administrative Agent  
270 Park Avenue  
New York, New York 10017

Ladies and Gentlemen:

This opinion is furnished to you pursuant to paragraph (a) of Section 4.01 of the Credit Agreement, dated as of May 29, 2009, among Ethan Allen Interiors Inc., a Delaware corporation ("Holdings"), Ethan Allen Global, Inc., a Delaware corporation (the "Borrower"), Ethan Allen Retail, Inc., a Delaware corporation ("Retail"), Ethan Allen Operations, Inc., a Delaware corporation ("Operations"), Lake Avenue Associates, Inc., a Connecticut corporation ("Lake Avenue"), Manor House, Inc., a Delaware corporation ("Manor House"), Ethan Allen Realty, LLC, a Delaware limited liability company ("Realty"), and collectively with Holdings, the Borrower, Retail, Operations, Lake Avenue, and Manor House, the "Loan Parties", the banks and other financial institutions identified therein as Lenders, and JPMorgan Chase Bank, as Administrative Agent. Unless otherwise defined herein, terms used herein have the meanings provided in the Credit Agreement.

I am general counsel of Holdings and the Borrower and, in that capacity, have acted as counsel for the Loan Parties in connection with (i) the Credit Agreement, (ii) the Pledge and Security Agreement, dated as of May 29, 2009 (the "Security Agreement"; collectively with the Credit Agreement, the "Agreements"), among Holdings, the Borrower, the other Loan Parties, and the Administrative Agent and (iii) the other Loan Documents. For purposes of this opinion, I have examined originals or copies, certified or otherwise identified to my satisfaction, of such documents, corporate records, certificates of public officials and other instruments and have conducted such other investigations of fact and law as I have deemed necessary or advisable.

Upon the basis of the foregoing, I am of the opinion that:

1. Each Loan Party (a) is a corporation (or in the case of Realty, a limited liability company) duly organized, validly existing and in good standing under the laws of the jurisdiction of its

organization, (b) has all requisite power and authority to own its property and assets and to carry on its business as now conducted, (c) is qualified to do business in every jurisdiction where such qualification is required, except where the failure to do so could not reasonably be expected to result in a Material Adverse Effect, and (d) has the corporate or other organizational power and authority to execute, deliver and perform its obligations under each Agreement.

2. The execution, delivery and performance by each Loan Party (collectively, the "Transactions") (a) have been duly authorized by all requisite corporate (or other organizational) and, if required, stockholder (or member) action and (b) will not (i) violate (A) any provision of law, statute, rule or regulation, or of the certificate or articles of incorporation or other constitutive documents, by-laws or operating agreement of any of the Loan Parties, (B) any order of any Governmental Authority or (C) any provision of any indenture, agreement or other instrument to which any of the Loan Parties is a party or by which any of them or any of their property is or may be bound, or (ii) be in conflict with, result in a breach of or constitute (alone or with notice or lapse of time or both) a default under any such indenture, agreement or other instrument.

3. Each Agreement has been duly executed and delivered by each of the Loan Parties.

I am a member of the bar of the State of New York and the foregoing opinion is limited to the laws of the State of New York, the General Corporation Law of the State of Delaware and the Federal laws of the United States of America. This opinion is rendered solely to you in connection with the above matter. This opinion may not be relied upon by you for any other purpose or relied upon by any other Person (other than your successors and assigns as Lenders and Persons that acquire participations in your Loans) without my prior written consent. My opinions in this letter are based upon the facts in existence and the laws in effect on the date hereof. I have no obligation to update this opinion for events or changes in law or fact occurring after the date hereof.

Very truly yours,

Pamela A. Banks  
Vice President, General Counsel  
and Secretary

EXHIBIT C

BORROWING BASE CERTIFICATE

[Attached]



**BORROWING BASE REPORT**  
as of

Obligor Number:  
Loan Number:

Ethan Allen Global, Inc.  
(in \$, 000 omitted)

	US
1 <b>Retail A/R (credit card)</b>	
2 <i>Less ineligibles</i>	—
3 Eligible retail A/R	—
4 <i>Advance rate %</i>	
5 Retail A/R availability	—
6 <b>Wholesale A/R</b>	
7 <i>Less ineligibles</i>	
8 Eligible wholesale A/R	—
9 <i>Advance rate %</i>	
10 Wholesale A/R availability	—
11 Total A/R availability	—
12 <b>Wholesale and Retail Finished Goods Inventory</b>	
13 <i>Less ineligibles</i>	
14 Eligible FG/Retail inventory	—
15 NOLV calculation:	
16 Eligible FG inventory as per above	—
17 NOLV rate	
18 Cost rate	
19 <i>Effective advance rate %</i>	
20 FG inventory availability at 85% of NOLV	—
21 <b>Plant Inventory</b>	
22 <i>Less ineligibles</i>	
23 Eligible plant inventory	—
24 NOLV calculation:	
25 NOLV rate	
26 Cost rate	
27 <i>Effective advance rate %</i>	
28 Raw Material inventory availability	—
29 <b>Total inventory availability</b>	—
30 <b>Total Borrowing Base Availability before reserves</b>	—
31 Less availability reserves:	
32 Rent Reserve	—
33 Customer Deposits @ 50%	
34 Other Reserves	—
35 Total availability reserves	—
36 <b>Total Borrowing Base Availability</b>	—
37 <b>Revolver Line</b>	
38 <b>Lesser of Borrowing Base Availability &amp; Commitment</b>	—
39 <b>Loan Balance</b>	—
40 <b>Letters of Credit Outstanding</b>	—
41 <b>Availability</b>	—

Pursuant to, and in accordance with, the terms and provisions of that certain Credit Agreement ("Agreement"), between JPMorgan Chase Bank, N.A. ("Chase"), as administrative agent for the Lenders, the Loan Parties and Ethan Allen Global, Inc. ("Borrower"), Borrower is executing and delivering to Chase this Collateral Report accompanied by supporting data (collectively referred to as the "Report"). Borrower warrants and represents to Chase that this Report is true and correct, and is based on information contained in Borrower's own financial accounting records. Borrower, by the execution of this Report, hereby ratifies, confirms and affirms all of the terms, conditions and provisions of the Agreement, and further certifies on this            day of            , 20    , that the Borrower is in compliance with said Agreement.

BORROWER NAME:

AUTHORIZED SIGNATURE:

\_\_\_\_\_

\_\_\_\_\_

EXHIBIT D

COMPLIANCE CERTIFICATE

To:            The Lenders parties to the  
                 Credit Agreement Described Below

This Compliance Certificate is furnished pursuant to that certain Credit Agreement dated as of May 29, 2009 (as amended, modified, renewed or extended from time to time, the “Agreement”) among Ethan Allen Global, Inc. (the “Borrower”), Ethan Allen Interiors Inc., the other Loan Parties, the Lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent for the Lenders and as the Issuing Bank. Unless otherwise defined herein, capitalized terms used in this Compliance Certificate have the meanings ascribed thereto in the Agreement.

THE UNDERSIGNED HEREBY CERTIFIES THAT:

1. I am the duly elected \_\_\_\_\_ of the Borrower;
2. I have reviewed the terms of the Agreement and I have made, or have caused to be made under my supervision, a detailed review of the transactions and conditions of the Borrower and its Subsidiaries during the accounting period covered by the attached financial statements [**for quarterly or monthly financial statements add:** and such financial statements present fairly in all material respects the financial condition and results of operations of the Borrower and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments and the absence of footnotes];
3. The examinations described in paragraph 2 did not disclose, except as set forth below, and I have no knowledge of (i) the existence of any condition or event which constitutes a Default during or at the end of the accounting period covered by the attached financial statements or as of the date of this Certificate or (ii) any change in GAAP or in the application thereof that has occurred since the date of the audited financial statements referred to in Section 3.04 of the Agreement;
4. I hereby certify that no Loan Party has changed (i) its name, (ii) its chief executive office, (iii) principal place of business, (iv) the type of entity it is or (v) its state of incorporation or organization without having given the Agent the notice required by Section 4.15 of the Security Agreement;
5. Schedule I attached hereto sets forth financial data and computations evidencing the Borrower’s compliance with certain covenants of the Agreement, all of which data and computations are true, complete and correct; and
6. Schedule II hereto sets forth the computations necessary to determine the Applicable Rate commencing on the Business Day this certificate is delivered.

Described below are the exceptions, if any, to paragraph 3 by listing, in detail, the (i) nature of the condition or event, the period during which it has existed and the action which the Borrower has taken, is taking, or proposes to take with respect to each such condition or event or (i) the change in GAAP or the application thereof and the effect of such change on the attached financial statements:

\_\_\_\_\_

The foregoing certifications, together with the computations set forth in Schedule I and Schedule II hereto and the financial statements delivered with this Certificate in support hereof, are made and delivered this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

ETHAN ALLEN GLOBAL, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

SCHEDULE I

Compliance as of \_\_\_\_\_, with  
Provisions of \_\_\_\_\_ and \_\_\_\_\_ of  
the Agreement

SCHEDULE II

Borrower’s Applicable Rate Calculation

EXHIBIT E

JOINDER AGREEMENT

THIS JOINDER AGREEMENT (this “Agreement”), dated as of [\_\_\_\_\_] , 20[\_\_\_\_\_] , is entered into between \_\_\_\_\_, a \_\_\_\_\_ (the “New Subsidiary”) and JPMORGAN CHASE BANK, N.A., in its capacity as administrative agent (the “Administrative Agent”) under that certain Credit Agreement, dated as of May 29, 2009, among Ethan Allen Global, Inc. (the “Borrower”), Ethan Allen Interiors Inc., the Loan Parties party thereto, the Lenders party thereto and the Administrative Agent (as the same may be amended, modified, extended or restated from time to time, the “Credit Agreement”). All capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Credit Agreement.

The New Subsidiary and the Administrative Agent, for the benefit of the Lenders, hereby agree as follows:

1. The New Subsidiary hereby acknowledges, agrees and confirms that, by its execution of this Agreement, the New Subsidiary will be deemed to be a Loan Party under the Credit Agreement and a “Loan Guarantor” for all purposes of the Credit Agreement and shall have all of the obligations of a Loan Party and a Loan Guarantor thereunder as if it had executed the Credit Agreement. The New Subsidiary hereby ratifies, as of the date hereof, and agrees to be bound by, all of the terms, provisions and conditions contained in the Credit Agreement, including without limitation (a) all of the representations and warranties of the Loan Parties set forth in Article III of the Credit Agreement, \*[and] (b) all of the covenants set forth in Articles V and VI of the Credit Agreement\*[and (c) all of the guaranty obligations set forth in Article X of the Credit Agreement. Without limiting the generality of the foregoing terms of this paragraph 1, the New Subsidiary, subject to the limitations set forth in Section 10.10 of the Credit Agreement, hereby guarantees, jointly and severally with the other Loan Guarantors, to the Administrative Agent and the Lenders, as provided in Article X of the Credit Agreement, the prompt payment and performance of the Guaranteed Obligations in full when due (whether at stated maturity, as a mandatory prepayment, by acceleration or

otherwise) strictly in accordance with the terms thereof and agrees that if any of the Guaranteed Obligations are not paid or performed in full when due (whether at stated maturity, as a mandatory prepayment, by acceleration or otherwise), the New Subsidiary will, jointly and severally together with the other Loan Guarantors, promptly pay and perform the same, without any demand or notice whatsoever, and that in the case of any extension of time of payment or renewal of any of the Guaranteed Obligations, the same will be promptly paid in full when due (whether at extended maturity, as a mandatory prepayment, by acceleration or otherwise) in accordance with the terms of such extension or renewal.]\* \* [The New Subsidiary has delivered to the Administrative Agent an executed Loan Guaranty]\*

2. If required, the New Subsidiary is, simultaneously with the execution of this Agreement, executing and delivering such Collateral Documents (and such other documents and instruments) as requested by the Administrative Agent in accordance with the Credit Agreement.

3. The New Subsidiary hereby waives acceptance by the Administrative Agent and the Lenders of the guaranty by the New Subsidiary upon the execution of this Agreement by the New Subsidiary.

4. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but all of which shall constitute one and the same instrument.

5. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAW OF THE STATE OF NEW YORK, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.

IN WITNESS WHEREOF, the New Subsidiary has caused this Agreement to be duly executed by its authorized officer, and the Administrative Agent, for the benefit of the Lenders, has caused the same to be accepted by its authorized officer, as of the day and year first above written.

[NEW SUBSIDIARY]

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Acknowledged and accepted:

JPMORGAN CHASE BANK, N.A., as Administrative Agent

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

EXHIBIT F

LIST OF CLOSING DOCUMENTS

Attached

ETHAN ALLEN GLOBAL, INC.

CREDIT FACILITIES

May 29, 2009

LIST OF CLOSING DOCUMENTS(7)

A. LOAN DOCUMENTS

1. Credit Agreement (the “Credit Agreement”) by and among Ethan Allen Global, Inc., a Delaware corporation (the “Borrower”), Ethan Allen Interiors Inc., a Delaware corporation (“Holdings”), the other Loan Parties party thereto, the financial institutions from time to time parties thereto as Lenders (the “Lenders”) and JPMorgan Chase Bank, N.A., in its capacity as Administrative Agent for itself and the other Lenders (the “Administrative Agent”), evidencing a revolving credit facility to the Borrower from the Lenders in an initial aggregate principal amount of \$40,000,000.

SCHEDULES

Schedule 2.01	—	Commitments
Schedule 2.06	—	Existing Letters of Credit
<i>Schedule 3.06</i>	—	<i>Disclosed Matters</i>
<i>Schedule 3.14</i>	—	<i>Insurance</i>
<i>Schedule 3.15</i>	—	<i>Capitalization and Subsidiaries</i>
<i>Schedule 3.21</i>	—	<i>Credit Card Processors</i>
<i>Schedule 6.01</i>	—	<i>Existing Indebtedness</i>
<i>Schedule 6.02</i>	—	<i>Existing Liens</i>
<i>Schedule 6.04</i>	—	<i>Existing Investments</i>
<i>Schedule 6.10</i>	—	<i>Existing Restrictions</i>

EXHIBITS

Exhibit A	—	Form of Assignment and Assumption
Exhibit B	—	Forms of Opinions of Loan Parties’ Counsels

Exhibit C	—	Form of Borrowing Base Certificate
Exhibit D	—	Form of Compliance Certificate
Exhibit E	—	Joinder Agreement
Exhibit F	—	List of Closing Documents

2. Promissory notes executed by the Borrower in favor of each of the Lenders, if any, which has requested a note pursuant to Section 2.10(f) of the Credit Agreement.

(7) Each capitalized term used herein and not defined herein shall have the meaning assigned to such term in the above-defined Credit Agreement. Items appearing in bold and italics shall be prepared and/or provided by the Borrower and/or Borrower's counsel.

3. Pledge and Security Agreement executed by the Loan Parties, *together with pledged instruments and allonges, stock certificates, stock powers executed in blank, pledge instructions and acknowledgments, as appropriate.*

<i>Exhibit A</i>	—	<i>Type of Entity; Principal Place of Business or Chief Executive Office; FEIN; State Organization Number; Jurisdiction of Incorporation; Properties Leased by the Grantors; Properties Owned by the Grantors; Public Warehouses or Other Locations</i>
<i>Exhibit B</i>	—	<i>Deposit Accounts; Lock Boxes; Securities Accounts</i>
<i>Exhibit C</i>	—	<i>Letter of Credit Rights; Chattel Paper</i>
<i>Exhibit D</i>	—	<i>Patents; Trademarks; Copyrights</i>
Exhibit E	—	[Intentionally Omitted]
Exhibit F	—	[Intentionally Omitted]
<i>Exhibit G</i>	—	<i>List of Pledged Collateral, Securities and other Investment Property</i>
Exhibit H	—	UCC Financing Statement Filing Locations
Exhibit I	—	Form of Amendment
Exhibit J	—	[Intentionally Omitted]
<i>Exhibit K</i>	—	<i>Commercial Tort Claims</i>

4. Confirmatory Grant of Security Interest in United States Patents made by certain of the Loan Parties in favor of the Administrative Agent for the benefit of the Lenders.(8)

<i>Schedule A</i>	—	<i>Registered Patents; Patent Applications; Other Patents</i>
<i>Schedule B</i>	—	<i>License Agreements</i>

5. Confirmatory Grant of Security Interest in United States Trademarks made by certain of the Loan Parties in favor of the Administrative Agent for the benefit of the Lenders.(2)

<i>Schedule A</i>	—	<i>Registered Trademarks; Trademark and Service Mark Applications; Other Trademarks</i>
<i>Schedule B</i>	—	<i>License Agreements</i>

6. *Certificates of Insurance listing the Administrative Agent as (x) lender loss payee for the property, casualty and business interruption insurance policies of the Loan Parties, together with long-form lender loss payable endorsements or assignments, as appropriate, and (y) additional insured with respect to the liability insurance of the Loan Parties, together with additional insured endorsements.*

#### B. UCC/INTELLECTUAL PROPERTY DOCUMENTS

7. UCC, tax lien and name variation search reports naming each Loan Party from the appropriate offices in relevant jurisdictions.
8. UCC financing statements naming each Loan Party as debtor and the Administrative Agent as secured party as filed with the appropriate offices in applicable jurisdictions.
9. Intellectual property search reports under the name of each Loan Party in each of the U.S. Copyright Office and the U.S. Patent and Trademark Office.

(8) Executed copies of confirmatory grants to be delivered by the Borrower (or its counsel) at closing, but shall be held in escrow until IP Collateral Trigger Date.

#### C. CORPORATE DOCUMENTS

10. *Certificate of the Secretary or an Assistant Secretary of each Loan Party certifying (i) that there have been no changes in the Certificate of Incorporation or other charter document of such Loan Party, as attached thereto and as certified as of a recent date by the Secretary of State (or the equivalent thereof) of the jurisdiction of its organization, since the date of the certification thereof by such Secretary of State (or the equivalent thereof), (ii) the By-Laws or other applicable organizational document, as attached thereto, of such Loan Party as in effect on the date of such certification, (iii) resolutions of the Board of Directors or other governing body of such Loan Party authorizing the execution, delivery and performance of each Loan Document to which it is a party, and (iv) the names and true signatures of the incumbent officers of each Loan Party authorized to sign the Loan Documents to which it is a party, and (in the case of the Borrower) authorized to request a Borrowing or the issuance of a Letter of Credit under the Credit Agreement.*
11. *Good Standing Certificate (or analogous documentation if applicable) for each Loan Party from the Secretary of State (or the equivalent thereof) of the jurisdiction of its organization, to the extent generally available in such jurisdiction.*

#### D. OPINIONS

12. *Opinion of Kelley Drye and Warren LLP, counsel for the Loan Parties.*
13. *Opinion of Pamela A. Banks, General Counsel for the Loan Parties.*

#### E. CLOSING CERTIFICATES AND MISCELLANEOUS



14. *A certificate signed by the chief financial officer of Holdings, dated as of the Effective Date, stating: (i) that no Default has occurred and is continuing; (ii) that the representations and warranties contained in Article III of the Credit Agreement are true and correct as of such date, (iii) certifying any other factual matters as may be reasonably requested by the Administrative Agent and (iv) that, after giving effect to the Transactions, the Loan Parties, taken as a whole, are solvent and will be solvent subsequent to incurring the Indebtedness in connection with the Transactions.*
15. Funding Account notice.
16. Borrowing Base Certificate.
17. Letter of Credit application.

F. POST-CLOSING DOCUMENTS

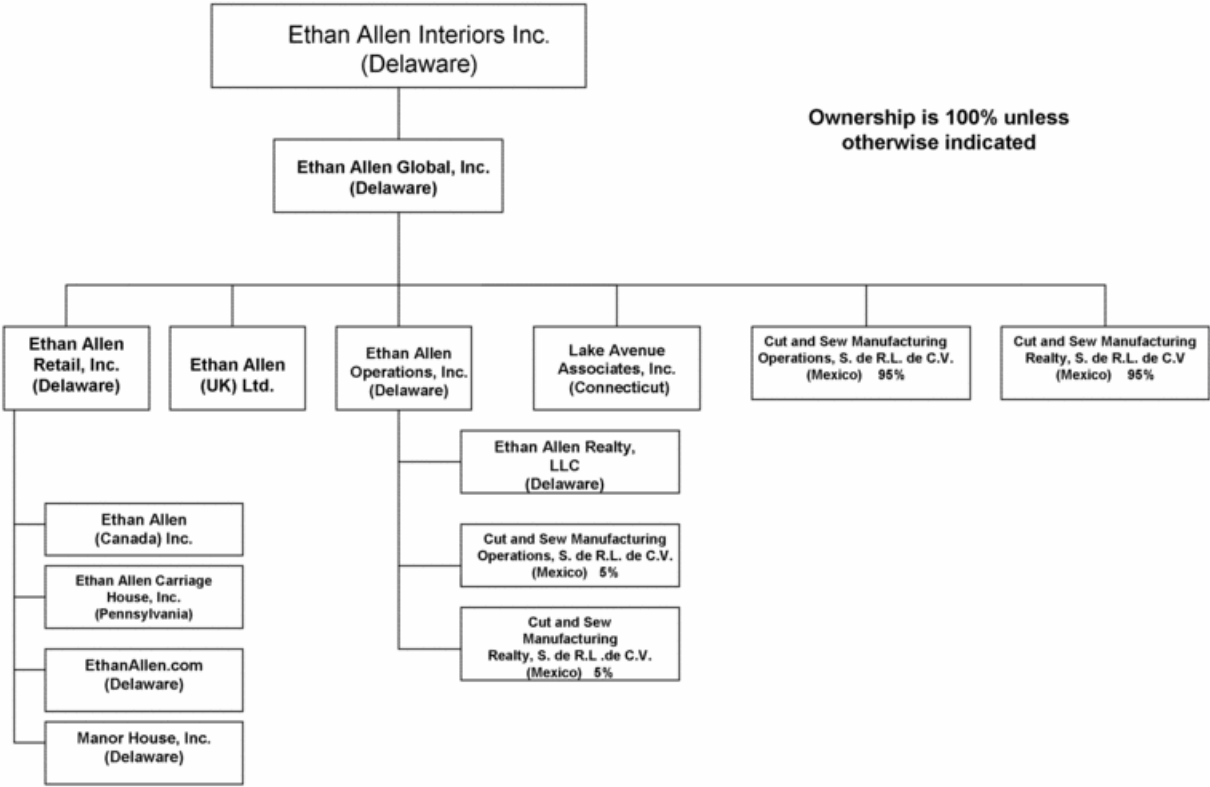
18. *Collateral Access Agreements.*
  19. *Processor Control Agreements.*
- 

20. *Deposit Account Control Agreements, with respect to each deposit account of each Loan Party, in form and substance satisfactory to the Administrative Agent, executed by such Loan Party, the financial institution at which such deposit account is maintained, and the Administrative Agent.*
  21. *Securities Account Control Agreements, with respect to each securities account of each Loan Party, in form and substance satisfactory to the Administrative Agent, executed by such Loan Party, the financial institution at which such securities account is maintained, and the Administrative Agent.*
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**Computation of Ratio Earnings to Fixed Charges**  
**(dollars in thousands)**

	Fiscal Year Ended June 30,		
	2009	2008	2007
<b>Earnings:</b>			
Income (loss) before income taxes	\$ (81,180)	\$ 92,178	\$ 109,726
Unconsolidated affiliates' interests, net	—	—	(201)
Amortization of capitalized interest	46	45	21
Interest expense and other related financing costs	11,764	11,713	11,762
Interest portion of rent expense (1)	12,901	13,659	12,054
Adjusted earnings	<u>\$ (56,469)</u>	<u>\$ 117,595</u>	<u>\$ 133,362</u>
<b>Fixed Charges:</b>			
Interest expense and other related financing costs	\$ 11,764	\$ 11,713	\$ 11,762
Interest portion of rent expense (1)	12,901	13,659	12,054
Total fixed charges	<u>\$ 24,665</u>	<u>\$ 25,372</u>	<u>\$ 23,816</u>
<b>Ratio of earnings to fixed charges</b>	<u><b>(2.29)</b></u>	<u><b>4.63</b></u>	<u><b>5.60</b></u>

(1) One-third of rent expense is considered representative of the interest factor within rent expense



**Report and Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
Ethan Allen Interiors Inc.:

The audits referred to in our report dated August 24, 2009, with respect to the consolidated financial statements of Ethan Allen Interiors Inc. and subsidiaries (the "Company") included the related financial statement schedule as of June 30, 2009, and for each of the years in the three-year period ended June 30, 2009, included in the June 30, 2009 annual report on Form 10-K of Ethan Allen Interiors Inc. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We consent to the incorporation by reference in the registration statements (Nos. 333-47935 and 333-26949) on Form S-8 of Ethan Allen Interiors Inc. of our reports dated August 24, 2009, with respect to the consolidated balance sheets of Ethan Allen Interiors Inc. and subsidiaries as of June 30, 2009 and 2008, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended June 30, 2009, and the related financial statement schedule and the effectiveness of internal control over financial reporting as of June 30, 2009, which reports appear in the June 30, 2009 annual report on Form 10-K of Ethan Allen Interiors Inc. Our report refers to the Company's adoption of the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* as of July 1, 2007.

/s/KPMG LLP

Stamford, Connecticut  
August 24, 2009

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**RULE 13a-14(a) CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**

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

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

/s/ M. Farooq Kathwari  
(M. Farooq Kathwari)

Chairman, President and  
Chief Executive Officer

August 24, 2009

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**RULE 13a-14(a) CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**

I, David R. Callen, do hereby certify that:

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

/s/ David R. Callen  
(David R. Callen)

Vice President, Finance  
and Treasurer

August 24, 2009

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**SECTION 1350 CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**

I, M. Farooq Kathwari, hereby certify that the June 30, 2009 Annual Report on Form 10-K as filed by Ethan Allen Interiors Inc. (the “Company”), which contains the Company’s financial statements, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and that information contained in such Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

\_\_\_\_\_  
/s/ M. Farooq Kathwari  
(M. Farooq Kathwari)

Chairman, President and Chief Executive Officer

August 24, 2009

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**SECTION 1350 CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**

I, David R. Callen, hereby certify that the June 30, 2009 Annual Report on Form 10-K as filed by Ethan Allen Interiors Inc. (the “Company”), which contains the Company’s financial statements, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and that information contained in such Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

\_\_\_\_\_  
/s/ David R. Callen  
(David R. Callen)

Vice President, Finance and Treasurer

August 24, 2009

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