
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 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, Connecticut

(Address of principal executive offices)

06811

(Zip Code)

(203) 743-8000

(Registrant's telephone number, including area code)

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant 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 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 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

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 Exchange Act). Yes No

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

At October 30, 2009, there were 28,916,929 shares of Class A Common Stock, par value \$.01, outstanding.

TABLE OF CONTENTS

Item	Page
<u>Part I — Financial Information</u>	
<u>1. Financial Statements as of September 30, 2009 (unaudited) and June 30, 2009 and for the three months ended September 30, 2009 and 2008 (unaudited)</u>	
<u>Consolidated Balance Sheets</u>	2
<u>Consolidated Statements of Operations</u>	3
<u>Consolidated Statements of Cash Flows</u>	4

	Consolidated Statements of Shareholders' Equity	5
	Notes to Consolidated Financial Statements	6
2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	24
3.	Quantitative and Qualitative Disclosures About Market Risk	33
4.	Controls and Procedures	34
Part II - Other Information		
1.	Legal Proceedings	34
1A.	Risk Factors	34
2.	Unregistered Sales of Equity Securities and Use of Proceeds	34
3.	Defaults Upon Senior Securities	34
4.	Submission of Matters to a Vote of Security Holders	34
5.	Other Information	34
6.	Exhibits	35
	Signatures	36

[Table of Contents](#)

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Consolidated Balance Sheets
(In thousands, except share data)

	<u>September 30, 2009</u>	<u>June 30, 2009</u>
	<u>(unaudited)</u>	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 72,452	\$ 52,960
Accounts receivable, less allowance for doubtful accounts of \$1,243 at September 30, 2009 and \$1,362 at June 30, 2009	13,053	13,086
Inventories (note 4)	146,661	156,519
Prepaid expenses and other current assets	12,075	21,060
Deferred income taxes	7,750	8,077
Total current assets	<u>251,991</u>	<u>251,702</u>
Property, plant and equipment, net	320,184	333,599
Goodwill and other intangible assets (notes 6 and 7)	45,128	45,128
Other assets	21,262	16,056
Total assets	<u>\$ 638,565</u>	<u>\$ 646,485</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt (note 8)	\$ 42	\$ 42
Customer deposits	38,885	31,691
Accounts payable	21,077	22,199
Accrued compensation and benefits	26,989	29,533
Accrued expenses and other current liabilities (note 5)	31,203	28,998
Total current liabilities	<u>118,196</u>	<u>112,463</u>
Long-term debt (note 8)	203,136	203,106
Other long-term liabilities	25,449	24,993
Total liabilities	<u>346,781</u>	<u>340,562</u>
Shareholders' equity:		
Class A common stock, par value \$.01, 150,000,000 shares authorized; 48,297,870 shares issued at September 30, 2009 and 48,334,870 shares issued at June 30, 2009	483	483
Class B common stock, par value \$.01, 600,000 shares authorized; no shares issued and outstanding at September 30, 2009 and June 30, 2009	—	—
Preferred stock, par value \$.01, 1,055,000 shares authorized; no shares issued and outstanding at September 30, 2009 and June 30, 2009	—	—
Additional paid-in capital	356,969	356,446
	<u>357,452</u>	<u>356,929</u>
Less: Treasury stock (at cost), 19,380,941 shares at September 30, 2009 and 19,380,941 shares at June 30, 2009	(583,220)	(583,220)
Retained earnings	516,716	531,747

Accumulated other comprehensive income (note 12)	836	467
Total shareholders' equity	291,784	305,923
Total liabilities and shareholders' equity	\$ 638,565	\$ 646,485

See accompanying notes to consolidated financial statements.

[Table of Contents](#)

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES
Consolidated Statements of Operations (Unaudited)
(In thousands, except per share data)

	Three Months Ended September 30,	
	2009	2008
Net sales	\$ 136,190	\$ 205,841
Cost of sales	77,881	93,900
Gross profit	58,309	111,941
Operating expenses:		
Selling	33,605	55,302
General and administrative	39,980	46,058
Restructuring and impairment charge, net (note 5)	812	(1,630)
Total operating expenses	74,397	99,730
Operating income (loss)	(16,088)	12,211
Interest and other miscellaneous income, net	797	1,100
Interest and other related financing costs (note 8)	2,981	2,901
Income (loss) before income taxes	(18,272)	10,410
Income tax expense (benefit) (note 3)	(4,693)	2,988
Net income (loss)	\$ (13,579)	\$ 7,422
Per share data (note 11):		
Basic earnings per common share:		
Net income (loss) per basic share	\$ (0.47)	\$ 0.26
Basic weighted average common shares	28,926	28,703
Diluted earnings per common share:		
Net income (loss) per diluted share	\$ (0.47)	\$ 0.26
Diluted weighted average common shares	28,926	28,847

See accompanying notes to consolidated financial statements.

[Table of Contents](#)

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

	Three Months Ended September 30,	
	2009	2008
Operating activities:		
Net income (loss)	\$ (13,579)	\$ 7,422
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,697	6,318
Compensation expense related to share-based awards	523	394
Provision (benefit) for deferred income taxes	(5,197)	(1,850)
Restructuring and impairment charge (benefit), net	266	(3,854)
(Gain) loss on disposal of property, plant and equipment	(470)	(5)
Other	55	66
Change in assets and liabilities, net of the effects of acquired businesses:		
Accounts receivable	33	931
Inventories	9,858	(561)
Prepaid and other current assets	6,427	9,192
Other assets	186	84
Customer deposits	7,194	(5,312)
Accounts payable	(1,122)	(550)
Accrued expenses and other current liabilities	(332)	5,253
Other long-term liabilities	456	547
Net cash provided by operating activities	16,995	18,075
Investing activities:		
Proceeds from the disposal of property, plant & equipment	5,935	5,729
Capital expenditures	(2,488)	(11,093)

Acquisitions	—	(375)
Other	6	(249)
Net cash provided by (used in) investing activities	<u>3,453</u>	<u>(5,988)</u>
Financing activities:		
Payments on long-term debt	(10)	(10)
Proceeds from issuance of common stock	—	2
Payment of deferred financing costs	(22)	—
Payment of cash dividends	(1,448)	(6,331)
Net cash used in financing activities	<u>(1,480)</u>	<u>(6,339)</u>
Effect of exchange rate changes on cash	524	(207)
Net increase in cash & cash equivalents	19,492	5,541
Cash & cash equivalents - beginning of period	52,960	74,376
Cash & cash equivalents - end of period	<u>\$ 72,452</u>	<u>\$ 79,917</u>

See accompanying notes to consolidated financial statements.

4

[Table of Contents](#)

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity
Three Months Ended September 30, 2009
(Unaudited)
(In thousands, except share data)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at June 30, 2009	\$ 483	\$ 356,446	\$ (583,220)	\$ 467	\$ 531,747	\$ 305,923
Share-based compensation expense (note 10)	—	523	—	—	—	523
Dividends declared on common stock	—	—	—	—	(1,452)	(1,452)
Other comprehensive income (note 12):						
Currency translation adjustments	—	—	—	357	—	357
Hedge amortization, net of tax and other	—	—	—	12	—	12
Net income (loss)	—	—	—	—	(13,579)	(13,579)
Total comprehensive income (loss)						<u>(13,210)</u>
Balance at September 30, 2009	<u>\$ 483</u>	<u>\$ 356,969</u>	<u>\$ (583,220)</u>	<u>\$ 836</u>	<u>\$ 516,716</u>	<u>\$ 291,784</u>

See accompanying notes to consolidated financial statements.

5

[Table of Contents](#)

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

(1) Basis of Presentation and Recent Accounting Pronouncements

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.

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. In preparing these financial statements, the Company has evaluated events and transactions subsequent to September 30, 2009 through November 9, 2009, the date of public issuance of this Quarterly Report on form 10-Q. 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.

Recently Adopted Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued guidance now codified as FASB Accounting Standards Codification ("ASC") Topic 105, "Generally Accepted Accounting Principles," as the single source of authoritative nongovernmental U.S. GAAP. ASC Topic 105 does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all authoritative literature related to a particular topic in one place. All existing accounting standard documents will be superseded and all other accounting literature not included in the ASC will be considered non-authoritative. These provisions of ASC Topic 105 are effective for interim and annual periods ending after September 15, 2009 and, accordingly, are effective for the Company for the current fiscal reporting period. The adoption of this pronouncement did not have an impact on the Company's financial condition or results of operations, but will impact our financial reporting process by

eliminating all references to pre-codification standards. On the effective date of this Statement, the ASC superseded all then-existing non-SEC accounting and reporting standards, and all other non-grandfathered non-SEC accounting literature not included in the ASC became non-authoritative. References to the pre-codification pronouncements are noted in parenthesis.

In September 2006, FASB issued guidance now codified as ASC Topic 820, "Fair Value Measurements and Disclosures," (SFAS No. 157) which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements and does not require any new fair value measurements. In February 2008, the FASB released additional ASC Topic 820 guidance (FSP No. 157-2), which delayed the effective date of the application of certain guidance related 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 in the financial statements on a recurring basis. The Company adopted certain provisions of ASC Topic 820 effective July 1, 2008, except as it relates to those non-financial assets and non-financial liabilities excluded as noted above. The Company adopted the provisions of ASC Topic 820 with respect to our non-financial assets and non-financial liabilities effective July 1, 2009. The

6

[Table of Contents](#)

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

implementation of this pronouncement did not have a material impact on our consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued guidance now codified as ASC Topic 805, "Business Combinations" (SFAS No. 141(R), which replaced SFAS No. 141). ASC Topic 805 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. ASC Topic 805 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 June 2008, the FASB issued guidance now codified as ASC Topic 260, "Earnings Per Share" (EITF 03-6). Under ASC Topic 260, "unvested share-based payment awards that contain rights to receive non-forfeitable dividends (whether paid or unpaid) are participating securities, and should be included in the two-class method of computing earnings per share. The implementation of this pronouncement did not have a material impact on our consolidated financial position, results of operations or cash flows.

(2) Interim Financial Presentation

All intercompany accounts and transactions have been eliminated in the consolidated financial statements. In our opinion, all adjustments, consisting only of normal recurring adjustments necessary for fair presentation, have been included in the consolidated financial statements. The results of operations for the three months ended September 30, 2009 are not necessarily indicative of results that may be expected for the entire fiscal year. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K/A for the year ended June 30, 2009.

(3) Income Taxes

The Company reviews its expected annual effective income tax rates and makes changes on a quarterly basis as necessary based on certain factors such as changes in forecasted annual operating income; changes to actual or forecasted permanent book to tax differences; impacts from future tax audits with state, federal or foreign tax authorities; or impacts from tax law changes. The Company identifies items which are not normal and are nonrecurring in nature and treats these as discrete events. The tax effect of discrete items is recorded in the quarter in which the discrete events occur. Due to the volatility of these factors, the Company's consolidated effective income tax rate can change significantly on a quarterly basis.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. Essentially all of the unrecognized tax benefits, if recognized, would be recorded as a benefit to income tax expense. Our continuing practice is to recognize interest and penalties related to income tax matters as a component of income tax expense.

The Company's consolidated effective income tax rate was 25.7% and 28.7% for the three months ended September 30, 2009 and 2008, respectively. The current effective tax rate, resulting in a tax benefit, was adversely affected by the valuation allowances against certain state and Canadian deferred tax assets. The prior period effective tax rate benefitted from a one time adjustment of \$0.7 million made in the prior year quarter.

7

[Table of Contents](#)

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

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 September 30, 2009, certain subsidiaries of the Company are currently under audit from 2001 through 2007 in the U.S. It is reasonably possible that some of these audits may be completed during the next twelve months. 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.

(4) Inventories

Inventories at September 30, 2009 and June 30, 2009 are summarized as follows (in thousands):

	September 30, 2009	June 30, 2009
Finished goods	\$ 119,721	\$ 130,180
Work in process	7,355	7,476
Raw materials	19,585	18,863
	<u>\$ 146,661</u>	<u>\$ 156,519</u>

Inventories are presented net of a related valuation allowance of \$2.2 million at both September 30, 2009 and June 30, 2009.

(5) 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 fiscal 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, accelerated depreciation and other related charges will ultimately approximate \$31 million, consisting of an \$18 million impact from long-lived assets, \$8 million in employee severance and other payroll and benefit costs, and \$5 million in other associated costs. By segment, we expect \$24 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 \$0.2 million of restructuring charges and \$6.6 million in accelerated depreciation for Wholesale, and \$0.4 million of restructuring charges for Retail. Cumulative charges to date for these actions totaling \$20.2 million have been classified in the Statement of Operations as restructuring and impairment charges and \$6.6 million of accelerated depreciation recorded in cost of sales. Approximately 800 employee positions and 140 contract worker positions have been or will be eliminated due to these actions.

In fiscal 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 fiscal 2008. Costs for the January 2008 actions in the current fiscal year by segment totaled \$0.2 million, all of which was for the Retail segment, mostly due to net losses on the sale of real estate. Cumulative charges to date for these actions total \$5.8 million, all of which have been classified in the Statement of Operations as restructuring and impairment charges of the Retail segment.

8

[Table of Contents](#)

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

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, 2009	New charges (credits)	Utilized	Adjustments	Balance September 30, 2009
Fiscal 2009 Actions					
Employee severance, other payroll and benefit costs	\$ 3,864	\$ 96	\$ (1,404)	\$ —	\$ 2,556
Other plant exit costs	654	412	(523)	—	543
Write down of long-lived assets	—	54	(54)	—	—
	<u>\$ 4,518</u>	<u>\$ 562</u>	<u>\$ (1,981)</u>	<u>\$ —</u>	<u>\$ 3,099</u>
Fiscal 2008 Actions					
Employee severance, other payroll and benefit costs	\$ 369	\$ —	\$ (10)	\$ —	\$ 359
Other plant exit costs	2,892	—	(353)	38	2,577
Write down of long-lived assets	—	—	(212)	212	—
	<u>\$ 3,261</u>	<u>\$ —</u>	<u>\$ (575)</u>	<u>\$ 250</u>	<u>\$ 2,936</u>

(6) Business Acquisitions

There were no acquisitions completed during the three months ended September 30, 2009.

In August 2008, we acquired in two transactions, two Ethan Allen retail design centers from independent retailers for consideration of approximately \$0.6 million of cash and forgiveness of receivables, assumed customer deposits of \$0.7 million and other liabilities of \$0.2 million. As a result of this acquisition, we recorded additional inventory of \$0.7 million and goodwill of \$0.7 million.

All 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) and other fair value adjustments to the assets acquired and liabilities assumed. Further discussion of our goodwill and other intangible assets can be found in Note 7.

9

[Table of Contents](#)

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

A summary of our allocation of purchase price accounting for acquisitions during the three months ended September 30, 2008 is provided below (in thousands).

	Three Months Ended September 30, 2008	
Business segment	Retail	
Total consideration	\$	567
Fair value of assets acquired and liabilities assumed:		
Inventory		669
PP&E and other assets		49
Customer deposits		(655)
A/P and other liabilities		(200)

(7) Goodwill, Other Intangible Assets and Goodwill Impairment

At both September 30, 2009 and June 30, 2009, we had goodwill and other indefinite-lived intangible assets of \$25.4 million and \$19.7 million, respectively, all of which is included in the Wholesale segment. The indefinite-lived intangible assets represent Ethan Allen trade names. The Company previously had goodwill in the Retail segment, all of which was considered impaired and written off during the third quarter of fiscal 2009.

In accordance with ASC Topic 350, "Intangibles-Goodwill and Other" (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 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.

The Company performed impairment evaluations during the second and third quarters of fiscal 2009 as a result of sudden and dramatic changes in the business climate and the Company's performance, and determined as of March 31, 2009 that the \$48.4 million of goodwill in the Retail segment was considered impaired and fully written off at that time. In the fiscal quarter ended June 30, 2009, the Company performed its annual impairment test and concluded there was no additional impairment.

During the quarter ending September 30, 2009, the business performance was consistent with management's expectations, revenues and operating costs were on plan, the Company's average quarterly stock price increased 13% (from \$12.11 for the quarter ended June 30, 2009, to \$13.69 for the quarter ended September 30, 2009), and cash reserves increased to \$72.5 million at September 30, 2009 from \$53.0 million at June 30, 2009. The Company considered these and other factors and concluded that an interim impairment test was not required.

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

10

[Table of Contents](#)

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

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.

(8) Borrowings

Total debt obligations at September 30, 2009 and June 30, 2009 consist of the following (in thousands):

	September 30, 2009	June 30, 2009
5.375% Senior Notes due 2015	\$ 199,037	\$ 198,997
Industrial revenue bonds	3,855	3,855
Other debt	286	296
Total debt	203,178	203,148
Less current maturities	42	42
Total long-term debt	\$ 203,136	\$ 203,106

In September 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 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. 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.

On May 29, 2009, the Company entered into a 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 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, and 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.

At September 30, 2009, we had no revolving loans, and \$12.5 million in trade and standby letters of credit outstanding under the Facility. Remaining availability under the revolver totaled \$27.5 million subject to limitations set forth in the agreement noted above. We are in compliance with the terms and conditions of the agreement and as a result, the coverage charge ratio, or other restricted payment limitations did not apply. As of September 30, 2009, we are in compliance with all covenants of our credit facility.

On October 23, 2009, the Facility was expanded to \$60 million. See Note 15 - Subsequent Events for additional details.

11

[Table of Contents](#)

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

(9) 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.

As of September 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

[Table of Contents](#)

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

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.

(10) Share-Based Compensation

On October 10, 2007, the Company’s Board of Directors and Mr. Kathwari agreed to the terms of a new employment agreement expiring on June 30, 2012 (the “Agreement”). Pursuant to the terms of the Agreement, Mr. Kathwari was awarded options to purchase 150,000 shares of our common stock on October 10, 2007, options to purchase an additional 90,000 shares on July 1, 2008, and options to purchase an additional 60,000 shares on July 1, 2009, in each case at the closing stock price on the grant date. The 2007 grant was issued at an exercise price of \$34.03, and vests in three equal installments on each June 30 of 2008, 2009 and 2010. The 2008 grant was issued at an exercise price of \$24.62, and vests in two equal installments on each of June 30, 2009 and 2010. The 2009 grant was issued at an exercise price of \$10.68 and vests on June 30, 2010. All options awarded under the Agreement have a contractual term of 10 years.

In connection with the Agreement, Mr. Kathwari received an award of 20,000 restricted shares with vesting based on continuing service and the performance of the Company’s stock price during the 32 month period subsequent to the award date as compared to the Standard and Poor’s 500 index. On July 1, 2008, an additional award of 20,000 restricted shares with the same vesting conditions (over a 36 month period) was granted. Mr. Kathwari received, as per the Agreement, an additional grant of 20,000 restricted shares on July 1, 2009 with the same 36 month vesting, continuing service and performance conditions.

Also in connection with the Agreement, Mr. Kathwari received on November 13, 2007 an award of 15,000 restricted shares. These shares are service-based with 3,000 shares vesting on June 30 for each of the years 2008 through 2012.

(11) Earnings Per Share

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

	Three Months Ended	
	September 30,	
	2009	2008
Weighted average common shares outstanding for basic calculation	28,926	28,703
Effect of dilutive stock options and other share-based awards	—	144
Weighted average common shares outstanding adjusted for dilution calculation	28,926	28,847

As of September 30, 2009 and 2008, stock options to purchase 2,251,389 and 1,813,855 common shares, respectively, were excluded from the respective diluted earnings per

[Table of Contents](#)

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

(12) 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 (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.

Accumulated other comprehensive income, comprised of losses on certain derivative instruments and accumulated foreign currency translation adjustments, totaled \$0.8 million at September 30, 2009 and \$0.5 million at June 30, 2009. Losses on derivative instruments are the result of cash flow hedging contracts entered into in connection with the issuance of the Senior Notes (see Note 8). Foreign currency translation adjustments are the result of changes in foreign currency exchange rates related to our operation of five Ethan Allen owned retail design centers located in Canada and our cut and sew plant located in Mexico. 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.

(13) Financial Instruments

ACS Topic 820, "Fair value measurements and disclosures" (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, ASC Topic 820 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.

The Company partially adopted ASC Topic 820 on July 1, 2008 due to the fact that a portion of ASC Topic 820 was previously deferred for one year for all nonfinancial assets and nonfinancial liabilities that were not recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). On July 1, 2009, the Company adopted the deferred portion of ACS Topic 820. There was no impact to the Company's financial position

[Table of Contents](#)

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

or results of operations resulting from the adoption of the deferred portion of ACS Topic 820. The Company has now fully adopted ASC Topic 820.

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 September 30, 2009, the Company's assets and liabilities measured at fair value on a recurring basis consist of \$59.7 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 three months ended September 30, 2009, we did not record any other-than-temporary impairments on those assets required to be measured at fair value on a nonrecurring basis.

(14) 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 offshore sourcing, sale and distribution of a full range of home furnishings and accessories to a network of independently owned and Ethan Allen owned 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 owned 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 owned 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).

15

[Table of Contents](#)

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

A breakdown of wholesale sales by these product lines for the three months ended September 30, 2009 and 2008 is provided as follows:

	Three Months Ended September 30,	
	2009	2008
Case Goods	40%	41%
Upholstered Products	45	42
Home Accessories and Other	15	17
	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.

16

[Table of Contents](#)

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

Segment information for the three months ended September 30, 2009 and 2008 is set forth as follows:

	Three Months Ended September 30,	
	2009	2008
Net sales:		
Wholesale segment	\$ 81,281	\$ 121,295
Retail segment	103,150	155,870
Elimination of inter-company sales	(48,241)	(71,324)
Consolidated Total	\$ 136,190	\$ 205,841
Operating income (loss):		
Wholesale segment (1)	\$ (4,660)	\$ 11,885
Retail segment (2)	(11,349)	(3,052)
Adjustment of inter-company profit (3)	(79)	3,378
Consolidated Total	\$ (16,088)	\$ 12,211
Capital expenditures:		
Wholesale segment	\$ 801	\$ 1,632
Retail segment	1,687	9,461
Acquisitions (4)	—	375
Consolidated Total	\$ 2,488	\$ 11,468
Total assets		
	September 30, 2009	June 30, 2009
Wholesale segment	\$ 281,075	\$ 276,250
Retail segment	385,279	397,877
Inventory profit elimination (5)	(27,789)	(27,642)
Consolidated Total	\$ 638,565	\$ 646,485

- (1) Operating income (loss) for the wholesale segment for the three months ended September 30, 2009 and 2008 includes pre-tax restructuring and impairment charges of \$0.2 million and \$0.4 million, respectively.
- (2) Operating income (loss) for the retail segment for the three months ended September 30, 2009 and 2008 includes pre-tax restructuring and impairment charges of \$0.7 million and a net recovery of \$2.0 million, respectively.
- (3) Represents the change in the inventory profit elimination necessary to adjust for the embedded wholesale profit contained in Ethan Allen-owned design center inventory existing at the end of the period.
- (4) Acquisitions for the three months ended September 30, 2008 include the purchase of two retail design centers.
- (5) Represents the wholesale profit contained in Ethan Allen-owned design center inventory that has not yet been realized. These profits are realized when the related

inventory is sold.

There were 49 independent retail design centers located outside the United States at September 30, 2009. Less than five percent of our net sales were derived from sales to those retail design centers.

(15) Subsequent Events

Ethan Allen declares quarterly cash dividend

Ethan Allen's Board of Directors has declared a quarterly cash dividend of \$0.05 per share, which will be payable to shareholders of record as of October 9, 2009 and paid on October 26, 2009.

Ethan Allen expands revolving credit facility

On October 23, 2009, the Company amended its three-year revolving credit facility by increasing the credit financing by \$20 million, with total borrowing under the agreement (subject to borrowing base availability) of up to \$60

17

[Table of Contents](#)

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

million. The Amended Facility is secured by all assets owned, leased or operated by the Company in the United States including intellectual property, and excludes any real estate owned by the Company.

Standard & Poor's lowers credit rating

On November 2, 2009, Standard & Poor's Rating Services lowered its corporate credit and senior unsecured debt ratings to 'B+' from 'BB' and indicated the outlook was negative. The rating agency cited very weak operating performance due to lower consumer spending and a tough retail environment in its rating action. The Company believes this change does not materially affect its ability to operate and further believes it has adequate liquidity and cash flow to meet current business needs.

(16) 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. (which was legally dissolved in October 2009), 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 September 30, 2009 and June 30, 2009, the condensed consolidating statements of operations for the three months ended September 30, 2009 and 2008, and the condensed consolidating statements of cash flows for the three months ended September 30, 2009 and 2008 of the Parent, the Issuer, the Guarantors and the Non-Guarantors.

18

[Table of Contents](#)

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

CONDENSED CONSOLIDATING BALANCE SHEET

(In thousands)

September 30, 2009

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Assets						
Current assets:						
Cash and cash equivalents	\$ —	\$ 68,296	\$ 2,888	\$ 1,268	\$ —	\$ 72,452
Accounts receivable, net	—	12,269	540	244	—	13,053
Inventories	—	—	169,742	4,708	(27,789)	146,661
Prepaid expenses and other current assets	—	12,736	6,469	620	—	19,825
Intercompany	—	767,471	229,281	(3,294)	(993,458)	—
Total current assets	—	860,772	408,920	3,546	(1,021,247)	251,991
Property, plant and equipment, net	—	11,201	304,005	4,978	—	320,184
Goodwill and other intangible assets	—	37,905	7,223	—	—	45,128
Other assets	—	20,454	802	6	—	21,262
Investment in affiliated companies	599,745	(39,991)	—	—	(559,754)	—
Total assets	\$ 599,745	\$ 890,341	\$ 720,950	\$ 8,530	\$ (1,581,001)	\$ 638,565
Liabilities and Shareholders' Equity						
Current liabilities:						
Current maturities of long-term debt	\$ —	\$ —	\$ 42	\$ —	\$ —	\$ 42
Customer deposits	—	—	37,175	1,710	—	38,885
Accounts payable	—	6,278	14,559	240	—	21,077
Accrued expenses and other current liabilities	1,559	39,363	16,968	302	—	58,192
Intercompany	306,402	8,123	673,183	5,750	(993,458)	—

Total current liabilities	307,961	53,764	741,927	8,002	(993,458)	118,196
Long-term debt	—	199,038	4,098	—	—	203,136
Other long-term liabilities	—	10,571	14,737	141	—	25,449
Deferred income taxes	—	—	—	—	—	—
Total liabilities	307,961	263,373	760,762	8,143	(993,458)	346,781
Shareholders' equity	291,784	626,968	(39,812)	387	(587,543)	291,784
Total liabilities and shareholders' equity	\$ 599,745	\$ 890,341	\$ 720,950	\$ 8,530	\$ (1,581,001)	\$ 638,565

19

[Table of Contents](#)

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

CONDENSED CONSOLIDATING BALANCE SHEET

(In thousands)

June 30, 2009

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Assets						
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)	—
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
Liabilities and Shareholders' Equity						
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

20

[Table of Contents](#)

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

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

(In thousands)

Three Months Ended September 30, 2009

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	\$ —	\$ 81,410	\$ 136,996	\$ 4,899	\$ (87,115)	\$ 136,190
Cost of sales	—	66,961	95,200	2,703	(86,983)	77,881
Gross profit	—	14,449	41,796	2,196	(132)	58,309
Selling, general and administrative expenses	41	11,032	59,973	2,539	—	73,585
Restructuring and impairment charge, (credit) net	—	—	812	—	—	812
Total operating expenses	41	11,032	60,785	2,539	—	74,397
Operating income (loss)	(41)	3,417	(18,989)	(343)	(132)	(16,088)
Interest and other miscellaneous income, net	(13,538)	(18,596)	33	—	32,898	797
Interest and other related financing costs	—	2,905	76	—	—	2,981
Income (loss) before income tax expense	(13,579)	(18,084)	(19,032)	(343)	32,766	(18,272)
Income tax expense	—	(4,693)	—	—	—	(4,693)

Net income (loss)	\$ (13,579)	\$ (13,391)	\$ (19,032)	\$ (343)	\$ 32,766	\$ (13,579)
Three Months Ended September 30, 2008						
	<u>Parent</u>	<u>Issuer</u>	<u>Guarantors</u>	<u>Non-Guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net sales	\$ —	\$ 121,596	\$ 208,800	\$ 6,080	\$ (130,635)	\$ 205,841
Cost of sales	—	88,405	136,394	3,272	(134,171)	93,900
Gross profit	—	33,191	72,406	2,808	3,536	111,941
Selling, general and administrative expenses	41	13,291	84,986	3,042	—	101,360
Restructuring and impairment charge, (credit) net	—	—	(1,630)	—	—	(1,630)
Total operating expenses	41	13,291	83,356	3,042	—	99,730
Operating income (loss)	(41)	19,900	(10,950)	(234)	3,536	12,211
Interest and other miscellaneous income, net	7,463	(10,136)	2	6	3,765	1,100
Interest and other related financing costs	—	2,825	76	—	—	2,901
Income (loss) before income tax expense	7,422	6,939	(11,024)	(228)	7,301	10,410
Income tax expense	—	2,988	—	—	—	2,988
Net income (loss)	\$ 7,422	\$ 3,951	\$ (11,024)	\$ (228)	\$ 7,301	\$ 7,422

21

[Table of Contents](#)

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

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

(In thousands)

Three Months Ended September 30, 2009

	<u>Parent</u>	<u>Issuer</u>	<u>Guarantors</u>	<u>Non-Guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net cash provided by (used in) operating activities	\$ 1,448	\$ 20,697	\$ (4,238)	\$ (912)	\$ —	\$ 16,995
Cash flows from investing activities:						
Capital expenditures	—	(97)	(2,391)	—	—	(2,488)
Acquisitions	—	—	—	—	—	—
Proceeds from the disposal of property, plant and equipment	—	—	5,935	—	—	5,935
Other	—	6	—	—	—	6
Net cash used in investing activities	—	(91)	3,544	—	—	3,453
Cash flows from financing activities:						
Payments on long-term debt	—	—	(10)	—	—	(10)
Purchases and other retirements of company stock	—	—	—	—	—	—
Proceeds from issuance of common stock	—	—	—	—	—	—
Payment of deferred financing costs	—	(22)	—	—	—	(22)
Dividends paid	(1,448)	—	—	—	—	(1,448)
Net cash provided by (used in) financing activities	(1,448)	(22)	(10)	—	—	(1,480)
Effect of exchange rate changes on cash	—	—	—	524	—	524
Net increase (decrease) in cash and cash equivalents	—	20,584	(704)	(388)	—	19,492
Cash and cash equivalents — beginning of period	—	47,712	3,592	1,656	—	52,960
Cash and cash equivalents — end of period	\$ —	\$ 68,296	\$ 2,888	\$ 1,268	\$ —	\$ 72,452

22

[Table of Contents](#)

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

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

(In thousands)

Three Months Ended September 30, 2008

	<u>Parent</u>	<u>Issuer</u>	<u>Guarantors</u>	<u>Non-Guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
--	---------------	---------------	-------------------	-----------------------	---------------------	---------------------

Net cash provided by (used in) operating activities	\$ 6,329	\$ 6,500	\$ 5,807	\$ (561)	\$ —	\$ 18,075
Cash flows from investing activities:						
Capital expenditures	—	(644)	(10,445)	(4)	—	(11,093)
Acquisitions	—	—	(375)	—	—	(375)
Proceeds from the disposal of property, plant and equipment	—	19	5,710	—	—	5,729
Other	—	(32)	(217)	—	—	(249)
Net cash used in investing activities	—	(657)	(5,327)	(4)	—	(5,988)
Cash flows from financing activities:						
Payments on long-term debt	—	—	(10)	—	—	(10)
Purchases and other retirements of company stock	—	—	—	—	—	—
Proceeds from issuance of common stock	2	—	—	—	—	2
Excess tax benefits from share-based payment arrangements	—	—	—	—	—	—
Dividends paid	(6,331)	—	—	—	—	(6,331)
Net cash provided by (used in) financing activities	(6,329)	—	(10)	—	—	(6,339)
Effect of exchange rate changes on cash	—	—	—	(207)	—	(207)
Net increase (decrease) in cash and cash equivalents	—	5,843	470	(772)	—	5,541
Cash and cash equivalents — beginning of period	—	71,117	1,307	1,952	—	74,376
Cash and cash equivalents — end of period	\$ —	\$ 76,960	\$ 1,777	\$ 1,180	\$ —	\$ 79,917

23

[Table of Contents](#)

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

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

The following discussion of financial condition and results of operations should be read in conjunction with (i) our Consolidated Financial Statements, and notes thereto, as set forth in this Quarterly Report on Form 10-Q and (ii) our Annual Report on Form 10-K/A for the year ended June 30, 2009.

Forward-Looking Statements

Management's discussion and analysis of financial condition and results of operations and other sections of this Quarterly 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 our Annual Report on Form 10-K/A for the year ended June 30, 2009 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

The Company's consolidated financial statements are based on the accounting policies used. Certain accounting policies require that estimates and assumptions be made by management for use in the preparation of the financial statements. Critical accounting policies are those that are central to the presentation of the Company's financial condition and results and that require subjective or complex estimates by management. The Company updated its disclosure regarding Impairment of Long-Lived Assets and Goodwill. For further information regarding the Company's other critical accounting policies, see the Company's 2009 Annual Report on Form 10-K/A filed with the SEC on August 27, 2009.

Impairment of Long-Lived Assets and Goodwill — We periodically evaluate whether events or circumstances have occurred that indicate that long-lived and indefinite-lived assets may not be recoverable or that the remaining useful life may warrant revision. When such events or circumstances are present, the Company determines whether the carrying value exceeds the fair value as described below.

In accordance with ASC Topic 360, "Property, Plant and Equipment" (SFAS No. 144), the recoverability of long-lived assets are evaluated for impairment 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 ASC Topic 350, "Intangibles-Goodwill and Other" (SFAS No. 142), goodwill and other indefinite-lived intangible assets are evaluated for impairment on an annual basis and between annual tests

24

[Table of Contents](#)

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 of goodwill and other intangible assets during the fourth quarter of each fiscal year.

To evaluate goodwill, the Company determines the current fair value of the Reporting Units using a combination of "Market" and "Income" approaches. In the Market approach, the "Guideline Company" method is used, which focuses on comparing the Company's risk profile and growth prospects to reasonably similar publicly traded companies. Key assumptions used for the Guideline Company method are total invested capital ("TIC") multiples for revenues and operating cash flows, as well as consideration of control premiums. The TIC multiples are determined based on public furniture companies within our peer group, and if appropriate, recent comparable transactions are also considered. Control premiums are determined using recent comparable transactions in the open market. Under the Income approach, a discounted cash flow method is used, which includes a terminal value, and is based on external analyst financial projection estimates, as well as internal financial projection estimates prepared by management. The long-term terminal growth rate assumptions reflect our current long-term view of the market in which we compete. Discount rates use the weighted average cost of capital for companies within our peer group, adjusted for specific company risk premium factors.

The fair value of our trade name, which is the Company's only indefinite lived intangible asset other than goodwill, is valued using the relief-from-royalty method. Significant factors used in trade name valuation are rates for royalties, future growth, and a discount factor. Royalty rates are determined using an average of recent comparable values. Future growth rates are based on the Company's perception of the long term values in the market in which we compete, and the discount rate is determined using the weighted average cost of capital for companies within our peer group, adjusted for specific company risk premium factors. The fair value of the trade name substantially exceeded the carrying value in fiscal 2009.

As a result of the economic downturn that began in the fall of 2008, the Company's revenues and operating margins were negatively impacted. In response, the Company reduced headcount, consolidated its manufacturing, retail, and logistics footprint and repositioned its marketing approach. As a result of these changes, the Company's cash flow forecasts were continually updated to reflect the rapid changes in the business and the industry. During fiscal 2009, the Company determined that \$48.4 million of goodwill in the Retail segment was considered impaired and fully written off. The cash flow projections used in its fair value evaluations are the best estimates of the Company and require significant management judgment.

In the fiscal quarter ended June 30, 2009, the Company performed its annual impairment test and no impairment of goodwill was appropriate as the fair value of the wholesale reporting unit net assets exceeded the book value by approximately 10%. During the quarter ending September 30, 2009, the business performance was consistent with the previous quarter, revenues and operating costs were on plan, the Company's average quarterly stock price increased 13% (from \$12.11 for the quarter ended June 30, 2009, to \$13.69 for the quarter ended September 30, 2009), and cash reserves increased to \$72.5 million at September 30, 2009 from \$53.0 million at June 30, 2009. The Company considered these and other factors and concluded that an interim impairment test was not required. There can be no assurance that the outcome of future reviews will not result in substantial impairment charges.

To calculate fair value of the assets described above, management relies on estimates and assumptions which by their nature have varying degrees of uncertainty. Wherever possible, management therefore looks for third party transactions as described above to provide the best possible support for the assumptions incorporated. Management considers several factors to be significant when estimating fair value including expected financial outlook of the business, changes in the Company's stock price, the impact of changing market conditions on financial performance and expected future cash flows, and other factors. Deterioration in any of these factors may result in a lower fair value assessment which could lead to impairment of the long-lived assets and goodwill of the Company.

25

[Table of Contents](#)

Results of Operations

Our Company has been severely impacted by the economic factors in the United States and abroad which we began to feel in earnest during our second quarter of fiscal 2009. Weakness in the U.S. economy from continued high unemployment, volatile capital markets, depressed housing prices and tight consumer spending have all put negative stress on the economy which continues to have a negative impact on our business. As we work through these difficult times, we have taken dramatic actions to significantly reduce our infrastructure in all facets of our business including closing and realigning manufacturing plants, consolidating logistics operations, and closing under-performing retail design centers. We have also launched initiatives to increase sales, such as special savings product promotions, our designer affiliate program and converting our case goods business to custom.

In fiscal 2009, the Company made several announcements on changes to our operations. 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 which will continue to operate while the other manufacturing operations from Beecher Falls were moved to our plant in Orleans, Vermont. In large part, these efforts to realign our manufacturing operations were concluded in this first quarter of fiscal 2009. The Company estimates pre-tax restructuring, impairment, accelerated depreciation and other related charges for all of the fiscal 2009 actions will ultimately approximate \$31 million, consisting of an \$18 million impact from long-lived assets, \$8 million in employee severance and other payroll and benefit costs, and \$5 million in other associated costs. By segment, we expect \$24 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 \$0.2 million of restructuring charges and \$6.6 million in accelerated depreciation for Wholesale, and \$0.4 million of restructuring charges for Retail. Cumulative charges to date for these actions totaling \$20.2 million have been classified in the Statement of Operations as restructuring and impairment charges and \$6.6 million of accelerated depreciation recorded in cost of sales. Approximately 800 employee positions and 140 contract worker positions have been or will be eliminated due to these actions.

In fiscal 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 fiscal 2008. Costs for the January 2008 actions in the current fiscal year totaled \$0.2 million, all of which was for the Retail segment, mostly due to net losses on the sale of real estate. Cumulative charges to date for these actions total \$5.8 million, all of which have been classified in the Statement of Operations as restructuring and impairment charges of the Retail segment.

Our revenues are comprised of (i) wholesale sales to independently owned and Company-owned retail design centers and (ii) retail sales of Company-owned design centers. See Note 14 to our Consolidated Financial Statements for the three months ended September 30, 2009 and 2008 for the components of consolidated revenue and operating income, capital expenditures, and total assets by segment.

Quarter Ended September 30, 2009 Compared to Quarter Ended September 30, 2008

Consolidated revenue for the three months ended September 30, 2009 decreased 33.8% to \$136.2 million, from \$205.8 million for the three months ended September 30, 2008. During the quarter, sales continue to be affected by the negative economic stresses mentioned earlier, as well as the use of highly-promotional pricing strategies by the Company's competitors. These factors were partially offset by (i) several new marketing initiatives including

26

[Table of Contents](#)

our rewards program and special savings pricing, and our new interactive web site ethanalleninc.com, (ii) 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, and (iii) the positive effects of efforts to reposition the retail network.

Wholesale revenue for the first quarter of fiscal 2009 decreased 33.0% to \$81.3 million from \$121.3 million in the prior year comparable period. The quarter-over-quarter decrease was primarily attributable to a decline in the incoming order rate due to a continued soft retail environment for home furnishings noted throughout the current period. These decreases were partially offset by our rewards program and celebration pricing during the quarter. In addition, there were two more independent retail design centers at September 30, 2009, which increased to 134 from 132, including two locations transferred into the company's Retail division during the year. There were the same number of shipping days in the quarter both this year and last year.

Retail revenue from Ethan Allen-owned design centers for the three months ended September 30, 2009 decreased 33.8% to \$103.2 million from \$155.9 million for the three months ended September 30, 2008. We believe the decrease in retail sales by Ethan Allen-operated design centers is due to the same soft market conditions experienced by the wholesale segment, as evidenced by a 35.3% decrease in comparable store sales, a net \$2.1 million decrease in new/closed store sales, and a net decrease in the number of Ethan Allen-operated design centers to 155 as of September 30, 2009 as compared to 160 as of September 30, 2008. These decreases were partially offset by our rewards program and celebration pricing during the quarter. During the quarter, we opened two (including one relocation) and closed five design centers.

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 centers sales in their 13th full month of Ethan Allen-owned operations.

Quarter-over-quarter, written business of Ethan Allen-owned design centers decreased 19.5% while comparable design centers written business decreased 20.0%. Over that same period, wholesale orders decreased 21.4%. Both retail and wholesale written business reflect the softer retail environment for home furnishings noted throughout the period as a result of continued negative economic stresses previously discussed.

We have made considerable investment within the retail network to strengthen the level of service, professionalism, interior design competence, efficiency, and effectiveness of the retail design center personnel. We believe that implementation of the "team" concept has helped us continue to improve the customer service experience. We also believe that over time, we will benefit from (i) our repositioning of the retail network, (ii) new product introductions, (iii) new marketing initiatives such as our rewards program, special savings pricing, and our new interior design affiliate (IDA) program, (iv) continued use of technology including our state-of-the-art website coupled with personal service from our design professionals, and (v) ongoing use of national television and shelter magazines as advertising media.

Gross profit decreased during the quarter to \$58.3 million from \$111.9 million in the prior year comparable quarter. The 47.9% decrease in gross profit was primarily attributable to (i) the reduction in net sales of 33.8%, with an overall decrease in shipments in both market segments, (ii) lower margin percentages within the wholesale segment due to accelerated depreciation from closed manufacturing operations totaling \$6.6 million, under absorption of plant overhead costs on the lower production volume, and other plant transition costs related to the restructuring of our manufacturing plants, and (iii) lower margins within the retail segment, due to discounted sales through our rewards program and celebration pricing initiatives and sales of discontinued product and floor samples. The sales mix remained constant with retail sales representing 76% of total sales in both the current and prior year period. Consolidated gross margin decreased to 42.8% from 54.4% in the prior year as a result, primarily, of the factors set forth above.

[Table of Contents](#)

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

Operating expenses decreased 25.4% to \$74.4 million, but increased to 54.6% of sales in the current quarter from \$99.7 million, or 48.5% of sales in the prior year quarter. Selling expenses were down in absolute terms due to actions taken and lower sales volume. Salary related costs decreased due to the reduced number of employees and other cost cutting efforts taken by the Company. Advertising expenses were down \$2.3 million versus the previous year first fiscal quarter.

Consolidated operating income (loss) for the three month period ended September 30, 2009 was a loss of \$16.1 million, or 11.8% of sales, as compared to income of \$12.2 million, or 5.9% of sales, for the three months ended September 30, 2008. This decrease of \$28.3 million is due to a decrease in gross profit mostly due to reduced sales, and accelerated depreciation charges due to restructuring activities, partly offset by a decrease in period over period operating expenses, both of which were discussed previously.

Wholesale operating income (loss) for the three months ended September 30, 2009 totaled a loss of \$4.7 million, or a negative 5.7% of sales, as compared to income of \$11.9 million, or 9.8% of sales, in the prior year comparable quarter. The decrease of \$16.5 million was primarily attributable to a decrease in sales volume, and the plant transition costs including the \$6.6 million of accelerated depreciation noted above relating to the closure of manufacturing plants as discussed previously.

Retail operating loss increased \$8.3 million to a loss of \$11.3 million, or a negative 11.0% of sales, for the first quarter of fiscal 2010 from a loss of \$3.1 million, or a negative 2.0% of sales, for the first quarter of fiscal 2009. The increase in retail operating loss generated by Ethan Allen-operated design centers was primarily due to reduced sales attributed to the weak retail environment for home furnishings offset partially by cost cutting actions taken.

Interest and other miscellaneous income, net decreased \$0.3 million from the prior year comparable quarter. The decrease was due, primarily to a decrease in investment income resulting from lower cash and cash equivalent balances and lower rates of interest during the current period.

Interest and other related financing costs amounted to just under \$3.0 million in both the current and prior year periods. This amount consists, primarily, of interest expense incurred in connection with our issuance of senior unsecured debt in September 2005.

Income tax expense for the three months ended September 30, 2009 totaled a benefit of \$4.7 million as compared to an expense of \$3.0 million for the three months ended September 30, 2008. Our effective tax rate for the current quarter was 25.7% compared to 28.7% in the prior year quarter. The current effective tax rate, resulting in a tax benefit, was adversely affected by valuation allowances against certain state and Canadian deferred tax assets. The prior period tax rate benefitted from a one time adjustment of \$0.7 million made in the prior year quarter.

Net income (loss) for the three months ended September 30, 2009, was a loss of \$13.6 million as compared to net income of \$7.4 million in the prior year comparable period. This resulted in a net loss per diluted share of \$0.47 in the current quarter and net income per diluted share of \$0.26 in the prior year quarter.

Liquidity and Capital Resources

At September 30, 2009, we held cash and cash equivalents of \$72.5 million. Our principal sources of liquidity include cash and cash equivalents, cash flow from operations, the revolving line of credit, and borrowings. The global economy continues to be unsettled, and capital markets continue to be disrupted and volatile. The cost and availability of funding has been and may continue to be adversely affected by illiquid credit markets. Some lenders have reduced or, in some cases, ceased to provide funding to borrowers. However, our lenders have not

[Table of Contents](#)

indicated to us that they would not continue to provide funding to us or not honor or be able to fully perform their obligations under the credit facility. Our access to the credit facility could also be negatively affected if operating results fall below prescribed levels or if the assets used to determine the borrowing base availability fall below the total available credit under the facility. Continued turbulence in the financial markets could also adversely affect the cost and availability of financing to us in the future.

On May 29, 2009, the Company entered into a 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 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, at September 30, 2009, also excluded any intellectual property owned by the Company unless availability was 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.

The Company has not drawn any cash advances against the facility, and has no plans to do so. At September 30, 2009, after excluding the \$12.5 million we had utilized in letters of credit, remaining availability under the revolver totaled \$27.5 million subject to limitations set forth in the agreement noted above. We are in compliance with the terms and conditions of the agreement and as a result, the coverage charge ratio, or other restricted payment limitations did not apply. As of September 30, 2009, we are in compliance with all covenants of our credit facility.

On October 23, 2009, the Company amended the revolving credit facility, increasing the line by \$20 million, with total borrowing under the agreement (subject to borrowing base availability and limitations set forth in the agreement noted above) of up to \$60 million. The amended facility is secured by all assets owned, leased or operated by the Company in the United States including intellectual property, other than real estate owned by the Company.

In September 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 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. 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-. In November 2009 S&P lowered our corporate and senior unsecured credit ratings to B+. Both rating services

[Table of Contents](#)

pointed to the Company’s depressed operating performance due to lower consumer spending and a tough retail environment as reasons for the downgrades. While the change in our credit rating had no impact on our existing credit facilities, the S&P rating, 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, which would reduce availability under the revolving credit agreement. It does not appear likely that the S&P rating will improve to investment grade prior to March 2010. The Company believes it has sufficient cash and access to credit (including its ability to expand the \$40 million credit facility to \$60 million) to fund operations and growth plans.

A summary of net cash provided by (used in) operating, investing, and financing activities for the three month periods ended September 30, 2009 and 2008 is provided below (in millions):

	Three Months Ended	
	September 30,	
	2009	2008
Operating Activities		
Net income plus depreciation and amortization	\$ (0.9)	\$ 13.7
Working capital	22.1	9.0
Excess tax benefits from share-based payment arrangements	—	—
Other (non-cash items, long-term assets and liabilities)	(4.2)	(4.6)
Total provided by operating activities	<u>\$ 17.0</u>	<u>\$ 18.1</u>
Investing Activities		
Capital expenditures	\$ (2.5)	\$ (11.1)
Acquisitions	—	(0.4)
Asset sales	5.9	5.7
Other	—	(0.2)
Total provided by (used in) investing activities	<u>\$ 3.4</u>	<u>\$ (6.0)</u>
Financing Activities		
Issuances of common stock	—	—
Purchases of company stock	—	—
Payment of dividends	(1.5)	(6.3)
Payment of deferred financing costs	—	—
Excess tax benefits from share-based payment arrangements	—	—
Total provided by (used in) financing activities	<u>\$ (1.5)</u>	<u>\$ (6.3)</u>

Operating Activities

As compared to the same period in fiscal year 2009, cash provided by operating activities decreased \$1.1 million mostly because of the \$21.0 million decrease in net income (partially offset by \$6.6 million in depreciation charges due to restructuring activities). Cash generated from working capital (accounts receivable, inventories, prepaid and other current assets, customer deposits, payables, accrued expenses, and other current liabilities) increased cash by \$13.1 million, largely from inventory reduction initiatives taken, income tax refunds, and an increase in customer deposits, offset by decreases in accrued expenses. The \$0.4 million in cash generated from other items was largely a result of restructuring charges, partially offset by a net increase in deferred tax benefits.

Investing Activities

As compared to the same period in fiscal year 2009, cash used in investing activities decreased \$9.4 million during the three months ended September 30, 2009 due, primarily, to a reduction in cash utilized to fund capital expenditures and acquisitions. We anticipate that cash from operations will be sufficient to fund future capital expenditures.

30

[Table of Contents](#)

Financing Activities

As compared to the same period in fiscal year 2009, cash used in financing activities decreased \$4.8 million during the three months ended September 30, 2009, primarily as a result of a decrease in dividend payments. The Company has continuously paid dividends every quarter since 1996. On July 21, 2009, the Board declared a dividend of \$0.05 per common share, payable on October 26, 2009, to shareholders of record as of October 9, 2009. If adverse economic conditions continue, the Company may further reduce our quarterly dividends.

As of September 30, 2009, our outstanding debt totaled \$203.2 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 and 2013. The balance of our long-term debt (\$199.2 million) matures in fiscal years 2014 and thereafter.

There has been no material change to the amount or timing of cash payments related to our outstanding contractual obligations as set forth in Part II, Item 7—*Management's Discussion and Analysis of Financial Condition and Results of Operation* of our Annual Report on Form 10-K/A for the year ended June 30, 2009 as filed with the Securities and Exchange Commission on August 27, 2009.

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 September 30, 2009, we had working capital of \$133.8 million and a current ratio of 2.1 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.

There were no repurchases during the three months ended September 30, 2009 and 2008. As of September 30, 2009, we had a remaining Board authorization to repurchase 1,567,669 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 (other than as specified below), or (iii) variable interests which could serve as a source of potential risk to our future liquidity, capital resources and results of operations.

In connection with the issuance of the Senior Notes, Global, in July and August 2005, entered into six separate forward contracts to hedge the risk-free interest rate associated with \$108.0 million of the related debt in order to mitigate 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.

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.

31

[Table of Contents](#)

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 Amended 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 September 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. Our non-contingent obligations under this arrangement as a result of modifications made to the Credit Facility subsequent to January 1, 2003 are not material.

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.

Product Warranties

Our products, including our case goods, upholstery and home accents, generally carry explicit product warranties that extend from one to ten 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

32

[Table of Contents](#)

time, additional warranty and other related claims could arise from disputes or other matters beyond the scope of our historical experience. As of September 30 2009, our product warranty liability totaled \$0.9 million.

Business Outlook

Stresses in the U.S. economy from continued high unemployment, volatile capital markets, depressed housing prices and tight consumer spending continue to have a negative impact on our business. While we remain optimistic about our long term outlook, current business conditions have only marginally improved in the quarter ended September 30, 2009. We cannot predict, with any degree of certainty when these difficult economic conditions will improve meaningfully.

As macro-economic factors change, it is also possible that our costs associated with production (including raw materials, labor and utilities), distribution (including freight and fuel charges), and retail operations (including compensation, benefits, delivery, warehousing, occupancy, and advertising expenses) may increase. We may also experience production difficulties as we consolidate manufacturing plants and convert our case goods to custom. 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 and significant manufacturing capacities 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 the Company, have increased their overseas sourcing activities in an attempt to maintain a competitive advantage and retain market share. 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.

We believe that our existing business model which includes: (i) an established brand; (ii) a comprehensive complement of home decorating solutions and complimentary interior design services and (iii) a vertically-integrated operating structure will position us well to take advantage of improved economic conditions when they occur.

In addition, we believe that our retail strategy, which involves (i) a continued focus on providing a wide array of product solutions including custom upholstery and case goods products and superior customer service coupled with state-of-the-art technology in our newly launched website, (ii) the opening of new or relocated design centers in more prominent locations, while encouraging independent retailers to do the same, and (iii) the development of a more professional, team based structure within our retail network, provides an opportunity to grow our business when the current difficult economic conditions improve.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to the market risks disclosed in our Annual Report on Form 10-K/A for the year ended June 30, 2009 as filed with the Securities and Exchange Commission on August 27, 2009.

33

[Table of Contents](#)

Item 4. 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 September 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.

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 fiscal quarter ended September 30, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - - OTHER INFORMATION

Item 1. Legal Proceedings

There have been no material changes to the matters discussed in Part I, Item 3 -*Legal Proceedings* in our Annual Report on Form 10-K/A for the year ended June 30, 2009 as filed with the Securities and Exchange Commission on August 27, 2009.

Item 1A. Risk Factors

There have been no material changes to the market risks disclosed in our Annual Report on Form 10-K/A for the year ended June 30, 2009 as filed with the Securities and Exchange Commission on August 27, 2009.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

There have been no purchases made by or on behalf of the Company or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Exchange Act) of our common stock during the three months ended September 30, 2009. The maximum number of shares that may yet be purchased under the plans or program is 1,567,669 shares.

Item 3. Defaults Upon Senior Securities

Not applicable.

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

Not applicable.

Item 5. Other Information

Not applicable.

34

[Table of Contents](#)

Item 6. Exhibits

Exhibit Number	Description
10.(g) -3	Amendment one dated October 23, 2009 to Credit Agreement dated May 29, 2009
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

35

[Table of Contents](#)

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)

DATE: November 9, 2009

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

DATE: November 9, 2009

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

36

[Table of Contents](#)

EXHIBIT INDEX

Exhibit Number	Exhibit
10.(g) -3	Amendment one dated October 23, 2009 to Credit Agreement dated May 29, 2009
31.1	Rule 13a-14(a) Certification of Principal Executive Officer
31.2	Rule 13a-14(a) Certification of Principal Financial Officer

AMENDMENT NO. 1

Dated as of October 23, 2009

to

CREDIT AGREEMENT

Dated as of May 29, 2009

THIS AMENDMENT NO. 1 ("Amendment") is made as of October 23, 2009 by and among Ethan Allen Global, Inc. (the "Borrower"), Ethan Allen Interiors Inc. ("Holdings"), the financial institutions listed on the signature pages hereof and JPMorgan Chase Bank, N.A., as Administrative Agent (in such capacity, the "Administrative Agent") under that certain Credit Agreement dated as of May 29, 2009 by and among the Borrower, Holdings, the Lenders and the Administrative Agent (as may be further amended, supplemented or otherwise modified from time to time, the "Credit Agreement"). Capitalized terms used herein and not otherwise defined herein shall have the respective meanings given to them in the Credit Agreement.

WHEREAS, the Borrower has requested that the Lenders and the Administrative Agent agree to certain amendments to the Credit Agreement;

WHEREAS, the Lenders party hereto and the Administrative Agent have agreed to such amendments on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the premises set forth above, the terms and conditions contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Borrower, Holdings, the Lenders party hereto and the Administrative Agent have agreed to enter into this Amendment.

1. Amendments to Credit Agreement. Effective as of the date of satisfaction of the conditions precedent set forth in Section 2 below, the Credit Agreement is hereby amended as follows:

(a) Section 1.01 of the Credit Agreement is amended to replace the corresponding previously existing definitions as follows:

"Amendment No. 1 Effective Date" means October 23, 2009.

"IP Collateral Trigger Date" means the Amendment No. 1 Effective Date.

"Issuing Bank" means, as the context may require, (i) Chase, with respect to Letters of Credit issued by it, or (ii) Wells Fargo Retail Finance, LLC and its affiliates, with respect to Letters of Credit issued by it, in each case in its capacity as an issuer of Letters of Credit hereunder, and its successors in such capacity as provided in Section 2.06(i). Each Issuing Bank may, in its discretion, arrange for one or more Letters of Credit to be issued by Affiliates of such Issuing Bank, in which case the term "Issuing

Bank" shall include any such Affiliate with respect to Letters of Credit issued by such Affiliate.

(b) The definition of "Borrowing Base" appearing in Section 1.01 of the Credit Agreement is amended to add the parenthetical "(provided that availability represented by Eligible Accounts included in the Borrowing Base shall not at any time exceed \$10,000,000)" immediately after the phrase "Eligible Accounts at such time" appearing in clause (b) thereof.

(c) The definition of "Change in Law" appearing in Section 1.01 of the Credit Agreement is amended to (i) delete the first reference to "the Issuing Bank" appearing therein and to replace such reference with "any Issuing Bank" and (ii) delete the second reference to "the Issuing Bank's" appearing therein and to replace such reference with "such Issuing Bank's".

(d) The definitions of "Defaulting Lender", "Excluded Taxes" and "Obligations" appearing in Section 1.01 of the Credit Agreement are amended to delete each reference to "the Issuing Bank" appearing therein and to replace each such reference with "any Issuing Bank".

(e) The definition of "Eligible Inventory" appearing in Section 1.01 of the Credit Agreement is amended to (i) delete the phrase ", to the extent requested by the Administrative Agent in its Permitted Discretion," appearing in clause (g) thereof and (ii) delete the phrase "sixty (60) days following the Effective Date" appearing in clause (g)(iii) thereof and to replace such phrase with the phrase "thirty (30) days following the Amendment No. 1 Effective Date".

(f) The definition of "Excluded Assets" appearing in Section 1.01 of the Credit Agreement is amended to (i) delete the comma appearing at the end of clause (i) thereof and to replace such comma with the word "and", (ii) delete the word "and" appearing at the end of clause (ii) thereof and (iii) delete clause (iii) thereof in its entirety.

(g) The definition of "Fixed Charge Coverage Ratio" appearing in Section 1.01 of the Credit Agreement is amended to add the phrase ", plus cash Rentals," immediately after the reference to "EBITDA" appearing therein.

(h) The definition of "LC Disbursement" appearing in Section 1.01 of the Credit Agreement is amended to delete the reference to "the Issuing Bank" appearing therein and to replace such reference with "an Issuing Bank".

(i) The definition of "Material Adverse Effect" appearing in Section 1.01 of the Credit Agreement is amended to delete the reference to "the Issuing Bank" appearing therein and to replace such reference with "the Issuing Banks".

(j) The definition of "Negative Covenant Permission Trigger" appearing in Section 1.01 of the Credit Agreement is amended to add the phrase "at the time thereof and for the six (6) month period following such acquisition or payment as determined based on the updated Projections most recently delivered to the Lenders, which Projections (x) shall have been delivered no earlier than the date that is thirty (30) days prior to such acquisition or payment and (y) must be reasonably satisfactory to the Administrative Agent" immediately after the phrase "including pro forma effect" appearing therein.

(k) The definition of "Secured Parties" appearing in Section 1.01 of the Credit Agreement is amended to (i) delete the first reference to "the Issuing Bank" appearing therein and to replace such reference with "each Issuing Bank" and (ii) delete the second reference to "the Issuing Bank" appearing therein and to replace such reference with "the Issuing Banks".

(l) Section 2.05(d) of the Credit Agreement is amended to (i) delete the phrase “shall request settlement” appearing therein and to replace such phrase with the phrase “shall effect settlement” and (ii) delete the phrase “Settlement is requested” appearing therein and to replace such phrase with the phrase “Settlement is effected”.

(m) Section 2.06 of the Credit Agreement is amended and restated in its entirety to read as follows:

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 relevant 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 relevant 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 relevant Issuing Bank) to an 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 such 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 such 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.

(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 any Issuing Bank or the Lenders, each Issuing Bank hereby grants to each Lender, and

each Lender hereby acquires from each 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 relevant Issuing Bank, such Lender’s Applicable Percentage of each LC Disbursement made by such 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 any 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 such 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 relevant Issuing Bank or, to the extent that Lenders have made payments pursuant to this paragraph to reimburse such Issuing Bank, then to such Lenders and such Issuing Bank as their interests may appear. Any payment made by a Lender pursuant to this paragraph to reimburse an 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 untrue or inaccurate in any respect, (iii) payment by an 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 any 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 relevant Issuing Bank; provided that the foregoing shall not be construed to excuse any 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 such 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 any Issuing Bank (as finally determined by a court of competent jurisdiction), such 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, each 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. Each Issuing Bank shall, promptly following its receipt thereof, examine all documents purporting to represent a demand for payment under a Letter of Credit. Each Issuing Bank shall promptly notify the Administrative Agent and the Borrower by telephone (confirmed by facsimile) of such demand for payment and whether such 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 such Issuing Bank and the Lenders with respect to any such LC Disbursement.

(h) Interim Interest. If any 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)

5

shall apply. Interest accrued pursuant to this paragraph shall be for the account of such 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 such Issuing Bank shall be for the account of such Lender to the extent of such payment.

(i) Replacement of an Issuing Bank. Any 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 an 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 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 an 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 relevant 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.

6

(n) Section 2.07(a) of the Credit Agreement is amended to (i) delete the time "2:00 p.m." appearing therein and to replace such time with the time "3:00 p.m." and (ii) add the word "relevant" immediately prior to the reference to "Issuing Bank" appearing therein.

(o) Sections 2.12(d), 2.18(f) and 10.09 of the Credit Agreement are amended to add the word "relevant" immediately prior to each reference to "Issuing Bank" appearing therein.

(p) Section 2.12(b) of the Credit Agreement is amended to (i) add the word "relevant" immediately prior to the first reference to "Issuing Bank" appearing therein, (ii) delete the second reference to "the Issuing Bank" appearing therein and to replace such reference with "such Issuing Bank", (iii) delete the third reference to "the Issuing Bank" appearing therein and to replace such reference with "any Issuing Bank" and (iv) add the phrase "attributable to Letters of Credit issued by such Issuing Bank" immediately following the first parenthetical appearing in clause (ii) thereof.

(q) Section 2.15 of the Credit Agreement is amended and restated in its entirety to read as follows:

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 any Issuing Bank; or

(ii) impose on any Lender or any 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 such 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 such Issuing Bank hereunder (whether of principal, interest or otherwise), then the Borrower will pay to such Lender or such Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or such Issuing Bank, as the case may be, for such additional costs incurred or reduction suffered.

(b) If any Lender or any 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 such Issuing Bank's capital or on the capital of such Lender's or such 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 such Issuing Bank, to a level below that which such Lender or such Issuing Bank or such Lender's or such Issuing Bank's holding company could have achieved but for such Change in Law (taking into consideration such Lender's or such Issuing Bank's policies and the policies of such Lender's or such Issuing Bank's holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Lender or such Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or such Issuing Bank or such Lender's or such Issuing Bank's holding company for any such reduction suffered.

7

(c) A certificate of a Lender or an Issuing Bank setting forth the amount or amounts necessary to compensate such Lender or such 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 such 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 any Issuing Bank to demand compensation pursuant to this Section shall not constitute a waiver of such Lender's or such Issuing Bank's right to demand such compensation; provided that the Borrower shall not be required to compensate a Lender or an 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 such 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 such Issuing Bank's intention to claim compensation therefor; provided further that, if 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.

(r) Section 2.17 of the Credit Agreement is amended and restated in its entirety to read as follows:

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 the relevant 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 each 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 such 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 an Issuing Bank, or by the Administrative Agent on its own behalf or on behalf of a Lender or an Issuing Bank, shall be conclusive absent manifest error.

8

(d) Each Lender and each 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 such 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 each Issuing Bank hereby authorizes the Administrative Agent to set off and apply any and all amounts at any time owing to such Lender or such 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.

(s) Section 2.18(a) of the Credit Agreement is amended to delete the reference to “the Issuing Bank” appearing therein and to replace such reference with “an Issuing Bank”.

(t) Sections 2.18(b), 9.03(a), 9.03(c), 9.05, 9.09(b), 9.13, 10.02, 10.03 and 10.07 of

9

the Credit Agreement are amended to delete each reference to “the Issuing Bank” appearing therein and to replace each such reference with “any Issuing Bank”.

(u) Section 2.18(e) of the Credit Agreement is amended to (i) delete the first and second references to “the Issuing Bank” appearing therein and to replace each such reference with “the Issuing Banks”, (ii) delete the third reference to “the Issuing Bank” appearing therein and to replace such reference with “each Issuing Bank” and (iii) add the word “such” immediately prior to the fourth reference to “the Issuing Bank” appearing therein.

(v) Section 2.19(b) of the Credit Agreement is amended to delete the parenthetical “(and if a Commitment is being assigned, the Issuing Bank)” appearing therein.

(w) Section 2.20(c)(v) of the Credit Agreement is amended to (i) delete the first reference to “the Issuing Bank” appearing therein and to replace such reference with “any Issuing Bank” and (ii) add the word “relevant” immediately prior to the second reference to “the Issuing Bank” appearing therein.

(x) Section 2.20(d) of the Credit Agreement is amended to delete the phrase “the Issuing Bank shall not” appearing therein and to replace such phrase with the phrase “no Issuing Bank shall”.

(y) Section 2.20 of the Credit Agreement is amended to delete the reference to “the Issuing Bank” appearing in the final paragraph thereof and to replace such reference with the phrase “the relevant Issuing Bank(s)”.

(z) Section 4.01 of the Credit Agreement is amended to delete each reference to “the Issuing Bank” appearing in the first and last paragraphs thereof and to replace each such reference with “the Issuing Banks”.

(aa) Section 4.02, 9.04(c)(i), 10.01, 10.05, 10.06, 10.11 and 10.12 and Article VIII of the Credit Agreement is amended to delete each reference to “the Issuing Bank” appearing therein and to replace each such reference with “the Issuing Banks”.

(bb) Section 5.01(d) of the Credit Agreement is amended to (i) delete the phrase “clause (a) or (b)” appearing therein and to replace such phrase with the phrase “clauses (a), (b) or (c)”, (ii) delete the phrase “clause (b)” appearing therein and to replace such phrase with the phrase “clauses (b) and (c)” and (iii) delete the phrase “clauses (a) and (b)” appearing therein and to replace such phrase with the phrase “clauses (a), (b) and (c)”.

(cc) Section 5.11 of the Credit Agreement is amended to (i) delete the phrase “. It is anticipated that up to three (3) appraisals per year will be conducted” appearing therein and (ii) amend and restate clause (i) thereof in its entirety to read as follows:

(i) no more than, and no less than, one (1) appraisal per year will be conducted if no Loans are outstanding and no more than, and no less than, two (2) appraisals will be conducted if any Loans are outstanding (subject to the following clause (ii)),

(dd) Section 5.12 of the Credit Agreement is amended to (i) delete the phrase “. It is anticipated that up to three (3) field examinations per year will be conducted” appearing therein and (ii) amend and restate clause (i) thereof in its entirety to read as follows:

(i) no more than, and no less than, one (1) field examination per year will be conducted if no Loans are outstanding and no more than, and no less than, two (2) field examinations will be conducted if any Loans are outstanding (subject to the following clause (ii)) Administrative Agent elects to conduct a second field examination in its sole discretion,

(ee) Section 5.14 of the Credit is amended to delete the phrase “sixty (60) days after the Effective Date” appearing therein and to replace such phrase with the phrase “thirty (30) days after the Amendment No. 1 Effective Date”.

(ff) Section 5.15(f) of the Credit Agreement is amended and restated in its entirety to read as follows:

(f) As of the Amendment No. 1 Effective Date, each Loan Party acknowledges and agrees that (i) all signature pages and exhibits to Confirmatory Grants of Security Interest and all other documents, instruments and deliveries previously 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 from escrow and (ii) the Administrative Agent shall be authorized to (A) date any such items the date of the Amendment No. 1 Effective 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.

(gg) Section 6.12(a) of the Credit Agreement is amended to delete the phrase “average monthly” appearing therein.

(hh) Section 9.01(a)(iii) of the Credit Agreement is amended and restated in its entirety to read as follows:

(iii) if to an Issuing Bank, to it at (A) JPMorgan Chase Bank, N.A., 270 Park Avenue, 44th Floor, New York, NY 10017, Attention of Joseph A. Lisack (Teletype No. (646) 534-2288) or (B) Wells Fargo Retail Finance, LLC, One Boston Place, 18th Floor, Boston, MA, 02108, Attention of Connie Liu (Teletype No. (617) 523-4029);

(ii) Section 9.02(a) of the Credit Agreement is amended to (i) delete the first and third references to “the Issuing Bank” appearing therein and to replace each such reference with “any Issuing Bank” and (ii) delete the second reference to “the Issuing Bank” appearing therein and to replace such reference with “the Issuing Banks”.

(jj) Section 9.02(b) of the Credit Agreement is amended to (i) delete the phrase “clauses (d) and (e)” appearing in clause (ix) thereof and to replace such phrase with the phrase “clauses (c) and (d)”, (ii) add the parenthetical “(or any material portion of Collateral constituting patents, trademarks or copyrights)” immediately after the phrase “all of the Collateral” appearing in clause (ix) thereof, (iii) delete the first reference to “the Issuing Bank” appearing therein and to replace such reference with “any Issuing Bank”, (iv) delete the second reference to “the Issuing Bank” appearing therein and to replace such reference with “such Issuing Bank” and (v) delete the third reference to “the Issuing Bank” appearing therein and to replace such reference with “the Issuing Banks”.

(kk) Section 9.02(c)(1) of the Credit Agreement is amended to add the parenthetical

“(other than a material portion of Collateral constituting patents, trademarks or copyrights)” immediately after the phrase “release its Liens on Collateral” appearing therein.

(ll) Section 9.03(b) of the Credit Agreement is amended to (i) delete the first reference to “the Issuing Bank” appearing therein and to replace such reference with “each Issuing Bank” and (ii) delete the second reference to “the Issuing Bank” appearing therein and to replace such reference with “any Issuing Bank”.

(mm) Section 9.04(a) of the Credit Agreement is amended to (i) add the word “relevant” immediately prior to the first and second references to “Issuing Bank” appearing therein and (ii) delete the third reference to “the Issuing Bank” appearing therein and to replace such reference with “the Issuing Banks”.

(nn) Section 9.04(b)(i) of the Credit Agreement is amended to (i) add the word “and” immediately following the semicolon appearing at the end of clause (A) thereof, (ii) delete the phrase “; and” appearing at the end of clause (B) thereof and to replace such phrase with a period and (iii) delete clause (C) thereof in its entirety.

(oo) Section 9.04(b)(iv) of the Credit Agreement is amended to (i) delete the first reference to “the Issuing Bank” appearing therein and to replace such reference with “the Issuing Banks” and (ii) delete the second reference to “the Issuing Bank” appearing therein and to replace such reference with “any Issuing Bank”.

(pp) Section 9.12 of the Credit Agreement is amended to (i) delete the first reference to “the Issuing Bank” appearing therein and to replace such reference with “the Issuing Banks” and (ii) delete each subsequent reference to “the Issuing Bank” appearing therein and to replace each such reference with “any Issuing Bank”.

(qq) Wells Fargo Retail Finance, LLC shall be an additional Lender under the Credit Agreement. Schedule 2.01 to the Credit Agreement is replaced in its entirety with Schedule 2.01 attached hereto.

(rr) Exhibit A to the Credit Agreement is amended to delete the phrase “and as Issuing Bank” from the signature block of the Administrative Agent appearing therein.

(ss) Exhibit D to the Credit Agreement is amended to delete the phrase “the Issuing Bank” appearing in the preamble thereto and to replace such phrase with “an Issuing Bank”.

2. Conditions of Effectiveness. The effectiveness of this Amendment is subject to the conditions precedent that the Administrative Agent shall have received (a) counterparts of this Amendment duly executed by the Borrower, Holdings, the Lenders and the Administrative Agent and the Consent and Reaffirmation attached hereto duly executed by the Subsidiary Guarantors and (b) legal opinions reasonably requested by the Administrative Agent in connection with this Amendment.

3. Representations and Warranties of Holdings and the Borrower. Each of Holdings and the Borrower hereby represents and warrants as follows:

(a) This Amendment and the Credit Agreement, as amended hereby, constitute legal, valid and binding obligations of such Loan Party and are enforceable against such Loan Party in accordance with their 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.

(b) As of the date hereof and giving effect to the terms of this Amendment, (i) no Default shall have occurred and be continuing and (ii) the representations and warranties of such Loan Party set forth in the Credit Agreement, as amended hereby, are true and correct as of the date hereof.

4. Reference to and Effect on the Credit Agreement.

(a) Upon the effectiveness hereof, each reference to the Credit Agreement in the Credit Agreement or any other Loan Document shall mean and be a reference to the Credit Agreement as amended hereby.

(b) Except as specifically amended above, the Credit Agreement and all other documents, instruments and agreements executed and/or delivered in connection therewith shall remain in full force and effect and are hereby ratified and confirmed.

(c) The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of the Administrative Agent or the Lenders, nor constitute a waiver of any provision of the Credit Agreement or any other documents, instruments and agreements executed and/or delivered in connection therewith.

5. Governing Law. This Amendment shall be construed in accordance with and governed by the law of the State of New York.

6. Headings. Section headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose.

7. Counterparts. This Amendment may be executed by one or more of the parties hereto on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. Signatures delivered by facsimile or PDF shall have the same force and effect as manual signatures delivered in person.

[Signature Pages Follow]

IN WITNESS WHEREOF, this Amendment has been duly executed as of the day and year first above written.

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 Amendment No. 1
Ethan Allen Global, Inc.
Credit Agreement dated as of May 29, 2009

JPMORGAN CHASE BANK, N.A.,
as Administrative Agent, Issuing Bank, Swingline Lender and individually as a Lender

By: /s/ Joseph A. Lisack
Name: Joseph A. Lisack
Title: Vice President

Signature Page to Amendment No. 1
Ethan Allen Global, Inc.
Credit Agreement dated as of May 29, 2009

CAPITAL ONE LEVERAGE FINANCE CORP.,
as a Lender

By: /s/ Nick Malatestinic
Name: Nick Malatestinic
Title: SVP

Signature Page to Amendment No. 1
Ethan Allen Global, Inc.
Credit Agreement dated as of May 29, 2009

WELLS FARGO RETAIL FINANCE, LLC,
as Issuing Bank and individually as a Lender

By: /s/ Cory Loftus
Name: Cory Loftus
Title: Vice President

Signature Page to Amendment No. 1
Ethan Allen Global, Inc.
Credit Agreement dated as of May 29, 2009

CONSENT AND REAFFIRMATION

Each of the undersigned hereby acknowledges receipt of a copy of the foregoing Amendment No. 1 to the Credit Agreement dated as of May 29, 2009 (the "Credit Agreement") by and among Ethan Allen Global, Inc. (the "Borrower"), Ethan Allen Interiors Inc. ("Holdings"), the financial institutions from time to time party thereto (the "Lenders") and JPMorgan Chase Bank, N.A., as Administrative Agent (the "Administrative Agent"), which Amendment No. 1 is dated as of October 23, 2009 (the "Amendment"). Capitalized terms used in this Consent and Reaffirmation and not defined herein shall have the meanings given to them in the Credit Agreement. Without in any way establishing a course of dealing by the Administrative Agent or any Lender, each of the undersigned consents to the Amendment and reaffirms the terms and conditions of the Guarantee Agreement and any other Loan Document executed by it and acknowledges and agrees that such agreements and each and every such Loan Document executed by the undersigned in connection with the Credit Agreement remains in full force and effect and is hereby reaffirmed, ratified and confirmed. All references to the Credit Agreement contained in the above-referenced documents shall be a reference to the Credit Agreement as so modified by the Amendment.

Dated: October 23, 2009

[Signature Page Follows]

ETHAN ALLEN OPERATIONS, 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

ETHAN ALLEN REALTY LLC

By Ethan Allen Operations, Inc., its Sole Member

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

Signature Page to Consent and Reaffirmation to Amendment No. 1
Ethan Allen Global, Inc.
Credit Agreement dated as of May 20, 2009

SCHEDULE 2.01

COMMITMENTS

<u>Lender</u>	<u>Commitment</u>
JPMorgan Chase Bank, N.A	\$ 25,000,000
Wells Fargo Retail Finance, LLC	\$ 20,000,000
Capital One Leverage Finance Corp.	\$ 15,000,000
Aggregate Commitment:	\$ 60,000,000

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

RULE 13a-14(a) CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, M. Farooq Kathwari, certify that:

- (1) I have reviewed this Quarterly Report on Form 10-Q of Ethan Allen Interiors Inc. ;
- (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 registrant as of, and for, the periods presented in this report;
- (4) The registrant'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 registrant 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 registrant, 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

/s/ M. Farooq Kathwari
(M. Farooq Kathwari)

Chairman, President and Chief Executive Officer

November 9, 2009

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

RULE 13a-14(a) CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, David R. Callen, certify that:

- (1) I have reviewed this Quarterly Report on Form 10-Q of Ethan Allen Interiors Inc. ;
- (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 registrant as of, and for, the periods presented in this report;
- (4) The registrant'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 registrant 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 registrant, 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

/s/ David R. Callen
(David R. Callen)

Vice President, Finance and Treasurer

November 9, 2009

