

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2015

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

Non-accelerated filer

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 January 21, 2016, there were 27,808,855 shares of Class A Common Stock, par value \$.01, outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands)

	December 31, 2015 (Unaudited)	June 30, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 57,031	\$ 76,182
Marketable securities	-	2,198
Accounts receivable, less allowance for doubtful accounts of \$1,541 at December 31, 2015 and \$1,386 at June 30, 2015	10,059	12,547
Inventories	157,498	151,916
Prepaid expenses and other current assets	24,346	27,831
Total current assets	248,934	270,674
Property, plant and equipment, net	273,477	277,035
Goodwill and other intangible assets	45,128	45,128
Restricted cash and investments	7,806	8,010
Other assets	3,465	5,130
Total assets	<u>\$ 578,810</u>	<u>\$ 605,977</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 3,053	\$ 3,034
Customer deposits	59,392	67,970
Accounts payable	16,995	18,946
Accrued compensation and benefits	21,643	26,896
Accrued expenses and other current liabilities	19,809	23,816
Total current liabilities	120,892	140,662
Long-term debt	55,113	73,203
Other long-term liabilities	22,403	21,577
Total liabilities	198,408	235,442
Shareholders' equity:		
Class A common stock	489	489
Additional paid-in-capital	372,638	370,914
Less: Treasury stock (at cost)	(617,789)	(605,586)
Retained earnings	628,831	607,079
Accumulated other comprehensive income	(4,033)	(2,638)
Total Ethan Allen Interiors Inc. shareholders' equity	380,136	370,258
Noncontrolling interests	266	277
Total shareholders' equity	380,402	370,535
Total liabilities and shareholders' equity	<u>\$ 578,810</u>	<u>\$ 605,977</u>

See accompanying notes to consolidated financial statements.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Unaudited)

(In thousands, except per share data)

	Three months ended December 31,		Six months ended December 31,	
	2015	2014	2015	2014
Net sales	\$ 207,535	\$ 197,067	\$ 397,926	\$ 387,773
Cost of sales	91,477	90,993	177,195	176,896
Gross profit	116,058	106,074	220,731	210,877
Selling, general and administrative expenses	89,551	88,414	173,324	172,747
Operating income	26,507	17,660	47,407	38,130
Interest and other income	49	89	175	232
Interest and other related financing costs	431	1,882	887	3,771
Income before income taxes	26,125	15,867	46,695	34,591
Income tax expense	9,591	5,829	17,014	12,674
Net income	\$ 16,534	\$ 10,038	\$ 29,681	\$ 21,917
Per share data:				
Basic earnings per common share:				
Net income per basic share	\$ 0.58	\$ 0.35	\$ 1.05	\$ 0.76
Basic weighted average common shares	28,304	28,930	28,357	28,929
Diluted earnings per common share:				
Net income per diluted share	\$ 0.58	\$ 0.34	\$ 1.04	\$ 0.75
Diluted weighted average common shares	28,537	29,295	28,605	29,272
Comprehensive income:				
Net income	\$ 16,534	\$ 10,038	\$ 29,681	\$ 21,917
Other comprehensive income				
Currency translation adjustment	(411)	(1,231)	(1,395)	(2,086)
Other	8	22	14	38
Other comprehensive income (loss) net of tax	(403)	(1,209)	(1,381)	(2,048)
Comprehensive income	\$ 16,131	\$ 8,829	\$ 28,300	\$ 19,869

See accompanying notes to consolidated financial statements.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Six months ended December 31,	
	2015	2014
<b>Operating activities:</b>		
Net income	\$ 29,681	\$ 21,917
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,589	9,394
Compensation expense related to share-based payment awards	914	629
Provision (benefit) for deferred income taxes	996	914
(Gain) loss on disposal of property, plant and equipment	(1,249)	2,843
Other	(850)	(47)
Change in operating assets and liabilities, net of effects of acquired businesses:		
Accounts receivable	2,488	1,362
Inventories	(5,582)	(4,869)
Prepaid and other current assets	3,780	(2,611)
Customer deposits	(8,578)	(7,674)
Accounts payable	(2,721)	(4,819)
Accrued expenses and other current liabilities	(8,539)	(5,876)
Other assets and liabilities	1,110	(703)
Net cash provided by operating activities	<u>21,039</u>	<u>10,460</u>
<b>Investing activities:</b>		
Proceeds from the disposal of property, plant & equipment	1,872	6,849
Change in restricted cash and investments	204	499
Capital expenditures	(7,374)	(13,115)
Acquisitions	-	(1,991)
Sales of marketable securities	2,150	8,930
Other investing activities	93	90
Net cash provided by (used in) investing activities	<u>(3,055)</u>	<u>1,262</u>
<b>Financing activities:</b>		
Payments on long-term debt and capital lease obligations	(18,225)	(288)
Purchases and retirements of company stock	(11,433)	-
Payment of cash dividends	(7,984)	(6,381)
Payment of deferred financing costs	-	(1,020)
Other financing activities	825	122
Net cash provided by (used in) financing activities	<u>(36,817)</u>	<u>(7,567)</u>
Effect of exchange rate changes on cash	(318)	(389)
Net increase (decrease) in cash & cash equivalents	(19,151)	3,766
Cash & cash equivalents at beginning of period	76,182	109,176
Cash & cash equivalents at end of period	<u>\$ 57,031</u>	<u>\$ 112,942</u>

See accompanying notes to consolidated financial statements.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity

Six Months Ended December 31, 2015

(Unaudited)

(In thousands)

	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Retained Earnings	Non- Controlling Interests	Total
Balance at June 30, 2015	\$ 489	\$ 370,914	\$ (605,586)	\$ (2,638)	\$ 607,079	\$ 277	\$ 370,535
Stock issued on share-based awards	-	143	-	-	-	-	143
Compensation expense associated with share-based awards	-	914	-	-	-	-	914
Tax benefit associated with exercise of share based awards	-	667	-	-	-	-	667
Purchase/retirement of company stock	-	-	(12,203)	-	-	-	(12,203)
Dividends declared on common stock	-	-	-	-	(7,929)	-	(7,929)
Capital distribution	-	-	-	-	-	(25)	(25)
Comprehensive income	-	-	-	(1,395)	29,681	14	28,300
Balance at December 31, 2015	<u>\$ 489</u>	<u>\$ 372,638</u>	<u>\$ (617,789)</u>	<u>\$ (4,033)</u>	<u>\$ 628,831</u>	<u>\$ 266</u>	<u>\$ 380,402</u>

See accompanying notes to consolidated financial statements.

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

**(1) 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.

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

**(2) Interim Financial Presentation**

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 and six months ended December 31, 2015 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 for the year ended June 30, 2015.

**(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; impacts from tax law changes; or change in judgment as to the realizability of deferred tax assets. The Company identifies items which are not normal and are non-recurring 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.

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 in such domestic and foreign jurisdictions. As of December 31, 2015, the Company and certain subsidiaries are currently under audit in the U.S. from 2009 through 2013. 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. It is reasonably possible that some of these audits may be completed during the next twelve months. It is reasonable to expect that various issues relating to uncertain tax benefits will be resolved within the next twelve months as exams are completed or as statutes expire and will impact the effective tax rate.

The Company's consolidated effective tax rate was 36.7% and 36.4% for the three and six months ended December 31, 2015 respectively, and 36.7% and 36.6% for the three and six months ended December 31, 2014, respectively. Both the current and prior year effective tax rates primarily include tax expense on that year's net income, and tax and interest expense on uncertain tax positions, partly offset by the reversal and recognition of some uncertain tax positions.

**(4) Restricted Cash and Investments**

At December 31, 2015 and June 30, 2015, we held \$7.8 million and \$8.0 million respectively, of restricted cash and investments in lieu of providing letters of credit for the benefit of the provider of our workmen's compensation insurance and other insurance. These funds can be invested in high quality money market mutual funds, U.S. Treasuries and U.S. Government agency fixed income instruments, and cannot be withdrawn without the prior written consent of the secured party. These assets are carried at cost, which approximates market value and are classified as long-term assets because they are not expected to be used within one year to fund operations. See also Note 12, "Fair Value Measurements".

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

**(5) Marketable Securities**

At June 30, 2015, the Company held marketable securities of \$2.2 million, classified as current assets, consisting of U.S. municipal bonds with maturities of less than one year, which were rated A+/A2 or better by the rating services Standard & Poors ("S&P") and Moodys Investors Service ("Moodys") respectively. At December 31, 2015, we did not hold any marketable securities. The municipal bonds all matured and the proceeds were transferred to our operating cash accounts. There were no material realized or unrealized gains or losses for the three or six months ended December 31, 2015 and December 31, 2014. See also Note 12, "Fair Value Measurements".

**(6) Inventories**

Inventories at December 31, 2015 and June 30, 2015 are summarized as follows (in thousands):

	December 31, 2015	June 30, 2015
Finished goods	\$ 122,722	\$ 118,537
Work in process	10,046	10,537
Raw materials	28,217	25,943
Valuation allowance	(3,487)	(3,101)
	<u>\$ 157,498</u>	<u>\$ 151,916</u>

**(7) Borrowings**

Total debt obligations at December 31, 2015 and June 30, 2015 consist of the following (in thousands):

	December 31, 2015	June 30, 2015
Revolving Credit Facility due 10/21/2019	\$ 40,000	\$ 40,000
Term Loan due 10/21/2019	17,333	35,000
Capital leases	2,010	2,568
Unamortized debt issuance costs	(1,177)	(1,331)
Total debt	58,166	76,237
Less current maturities	3,053	3,034
Total long-term	<u>\$ 55,113</u>	<u>\$ 73,203</u>

In September 2005, we issued \$200 million in ten-year senior unsecured notes due October 1, 2015 (the "Senior Notes"). The Company entered into a five year, \$150 million senior secured revolving credit and term loan facility on October 21, 2014, as amended January 28, 2015 (the "Facility"). The Facility amended and restated the previous five-year, \$50 million secured revolving credit facility in its entirety. The Facility, which expires on October 21, 2019, provides a term loan of up to \$35 million and a revolving credit line of up to \$115 million, subject to borrowing base availability. During March 2015, we utilized \$35 million of the term loan and \$40 million of the revolving credit line, along with our available cash to fully redeem our Senior Notes. We incurred financing costs of \$1.5 million under the Facility, which are being amortized by the straight-line method, which approximates the interest method, over the remaining life of the Facility.

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

At the Company's option, revolving loans under the Facility bear interest, based on the average availability, at an annual rate of either (a) the London Interbank Offered rate ("LIBOR") plus 1.5% to 1.75%, or (b) the higher of (i) the prime rate, (ii) the federal funds effective rate plus 0.50%, or (iii) LIBOR plus 1.0% plus in each case 0.5% to 0.75%. At December 31, 2015 the annual interest rate in effect on the revolving loan was 1.9375%.

At the Company's option, term loans under the Facility bear interest, based on the Company's rent adjusted leverage ratio, at an annual rate of either (a) LIBOR plus 1.75% to 2.25%, or (b) the higher of (i) the prime rate, (ii) the federal funds effective rate plus 0.50%, or (iii) LIBOR plus 1.0% plus in each case 0.75% to 1.25%. At December 31, 2015 the annual interest rate in effect on the term loan was 2.1875%.

The Company pays a commitment fee of 0.15% to 0.25% per annum on the unused portion of the Facility, and fees on issued letters of credit at an annual rate of 1.5% to 1.75% based on the average availability. Certain payments are restricted if the availability under the revolving credit line falls below 20% of the total revolving credit line, and the Company is subject to pro forma compliance with the fixed charge coverage ratio if applicable.

Quarterly installments of principal on the term loan are payable based on a straight line 15 year amortization period, with the balance due at maturity. The Company does not expect to repay the revolving credit line portion of the Facility within the next year.

The Facility is secured by all property owned, leased or operated by the Company in the United States and includes certain real property owned by the Company and contains customary covenants which may limit the Company's ability to incur debt; engage in mergers and consolidations; make restricted payments (including dividends and share repurchases); sell certain assets; and make investments.

The Company must maintain a minimum fixed charge coverage ratio of 1.1 to 1.0 at all times. If the outstanding term loans are less than \$17.5 million and the fixed charge coverage ratio equals or exceeds 1.25 to 1.0, the fixed charge coverage ratio ceases to apply and thereafter shall only be triggered if average monthly availability is less than 15% of the amount of the revolving credit line. At September 30, 2015 our fixed charge coverage ratio was 1.4 to 1.0. During November 2015, we made a \$16.5 million prepayment on the term loan, bringing the outstanding term loan to \$17.3 million, and the fixed charge coverage ratio ceased to apply. Our average availability during the quarter ended December 31, 2015 was 65.0%.

The Company intends to use the Facility for working capital and general corporate purposes, including dividend payments and share repurchases, in addition to the refinancing of our Senior Notes which occurred in March 2015. At both December 31, 2015 and June 30, 2015, there was \$0.2 million of standby letters of credit outstanding under the Facility and total availability under the Facility of \$74.8 million.

At both December 31, 2015 and June 30, 2015, we were in compliance with all of the covenants under the Facility.

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

The following table summarizes, as of December 31, 2015, the timing of cash payments related to our outstanding long-term debt obligations for the remaining six months of fiscal 2016, and each of the five fiscal years subsequent to June 30, 2016, and thereafter (in thousands).

	Periods ending June 30,	
2016		\$ 1,616
2017		3,303
2018		2,815
2019		2,396
2020		49,213
2021 and thereafter		-
<b>Total scheduled debt payments</b>		<b>\$ 59,343</b>

**(8) Litigation**

We are routinely involved in various investigations or as a defendant in litigation, in the ordinary course of business. We are also subject to various 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. 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.

Regulations issued under the Clean Air Act Amendments of 1990 required the industry to reformulate certain furniture finishes or institute process changes to reduce emissions of volatile organic compounds. Compliance with many of these requirements has been facilitated through the introduction of high solids coating technology and alternative formulations. In addition, we have instituted a variety of technical and procedural controls, including reformulation of finishing materials to reduce toxicity, implementation of high velocity low pressure spray systems, development of storm water protection plans and controls, and further development of related inspection/audit teams, all of which have served to reduce emissions per unit of production. We remain committed to implementing new waste minimization programs and/or enhancing existing programs with the objective of (i) reducing the total volume of waste, (ii) limiting the liability associated with waste disposal, and (iii) continuously improving environmental and job safety programs on the factory floor which serve to minimize emissions and safety risks for employees. We will continue to evaluate the most appropriate, cost effective, control technologies for finishing operations and design production methods to reduce the use of hazardous materials in the manufacturing process. We believe that our facilities are in material compliance with all such applicable laws and regulations. Our currently anticipated capital expenditures for environmental control facility matters are not material.

Although the outcome of the various claims and proceedings against us cannot be predicted with certainty, management believes that the likelihood is remote that any existing claims or proceedings will have a material adverse effect on our financial position, results of operations or cash flows.

**(9) Share-Based Compensation**

All options are issued at the closing stock price on each grant date, and have a contractual term of 10 years. A summary of stock option activity occurring during the six months ended December 31, 2015 is presented below:

Options	Shares
Outstanding - June 30, 2015	994,888
Granted	24,367
Exercised	(7,728)
Canceled (forfeited/expired)	(30,398)
Outstanding - December 31, 2015	981,129
Exercisable - December 31, 2015	552,302

At December 31, 2015, there were 1,307,181 shares of common stock available for future issuance pursuant to the 1992 Stock Option Plan.

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

Employment Agreement / Share-Based Awards

Effective July 1, 2015, the Company and M. Farooq Kathwari, our President and Chief Executive Officer, entered into a new employment agreement (the "Agreement"). Shareholders approved the incentive performance components of the Agreement for purposes of tax deductibility, and on December 1, 2015, the final vote count was certified. Pursuant to the Agreement, Mr. Kathwari will be entitled to performance-based restricted stock units ("Performance Units") providing a contingent right to receive shares of the Company's common stock, conditioned upon the Company's achievement of certain performance targets and goals. Each fiscal year during the term of Mr. Kathwari's employment under the Agreement, Mr. Kathwari shall be granted Performance Units entitling Mr. Kathwari to earn 0 to 81,250 shares of common stock, with each such grant to be made within ninety (90) days of the beginning of each fiscal year, contingent upon the Company's achievement of certain performance goals, and subject to the terms of the Agreement. For each grant of Performance Units, the amount of the grant that will be earned and paid will be determined by reference to the achievement of certain performance goals for each of the two initial fiscal years (on a cumulative basis) and the three fiscal years (on a cumulative basis) applicable to such grant.

**(10) Earnings Per Share**

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

	Three months ended December 31,		Six months ended December 31,	
	2015	2014	2015	2014
Weighted average common shares outstanding for basic calculation	28,304	28,930	28,357	28,929
Effect of dilutive stock options and other share-based awards	233	365	248	343
Weighted average common shares outstanding adjusted for dilution calculation	<u>28,537</u>	<u>29,295</u>	<u>28,605</u>	<u>29,272</u>

As of December 31, 2015 and 2014, stock options to purchase 667,565 and 396,792 common shares, respectively, were excluded from the respective diluted earnings per share calculations because their impact was anti-dilutive.

**(11) Accumulated Other Comprehensive Income**

Accumulated other comprehensive income consists of foreign currency translation adjustments which are the result of changes in foreign currency exchange rates related to our operations in Canada, Belgium, Honduras, and Mexico, and exclude income taxes given that the earnings of non-U.S. subsidiaries are deemed to be reinvested for an indefinite time. The table following sets forth the activity in accumulated other comprehensive income for the period ended December 31, 2015 (in thousands).

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

Balance June 30, 2015	\$ (2,638)
Changes before reclassifications	\$ (1,395)
Amounts reclassified from accumulated other comprehensive income	\$ -
Current period other comprehensive income	\$ (1,395)
Balance December 31, 2015	<u>\$ (4,033)</u>

**(12) Fair Value Measurements**

We determine 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 is calculated based on assumptions that market participants use in pricing the asset or liability, and not on assumptions specific to the Company. In addition, the fair value of liabilities includes consideration of non-performance risk including our own credit risk. Each fair value measurement is reported in one of three levels, 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.

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

The following table presents our assets and liabilities measured at fair value on a recurring basis at December 31, 2015 and June 30, 2015 (in thousands):

	December 31, 2015			Balance
	Level 1	Level 2	Level 3	
Cash equivalents	\$ 64,837	\$ -	\$ -	\$ 64,837
Available-for-sale securities	-	-	-	-
<b>Total</b>	<u>\$ 64,837</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,837</u>

  

	June 30, 2015			Balance
	Level 1	Level 2	Level 3	
Cash equivalents	\$ 84,192	\$ -	\$ -	\$ 84,192
Available-for-sale securities	-	2,198	-	2,198
<b>Total</b>	<u>\$ 84,192</u>	<u>\$ 2,198</u>	<u>\$ -</u>	<u>\$ 86,390</u>

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

Cash equivalents consist of money market accounts and mutual funds in U.S. government and agency fixed income securities. We use quoted prices in active markets for identical assets or liabilities to determine fair value. There were no transfers between level 1 and level 2 during the first six months of fiscal 2016 or fiscal 2015. At December 31, 2015 and June 30, 2015, \$7.8 million and \$8.0 million, respectively, of the cash equivalents were restricted, and classified as long-term assets.

At June 30, 2015, available-for-sale securities consisted of \$2.2 million in U.S. municipal bonds. The bonds were rated A+/A2 or better by S&P and Moodys, respectively. As of December 31, 2015 and June 30, 2015, there were no material gross unrealized gains or losses on available-for-sale securities. We did not hold any available-for-sale securities on December 31, 2015, as all municipal bonds matured and the proceeds were transferred to our operating cash accounts. At June 30, 2015, the contractual maturities of our available-for-sale securities were as follows:

June 30, 2015			
	Cost		Estimated Fair Value
Due in one year or less	\$	2,296	\$ 2,198
Due after one year through five years	\$	-	-

No investments have been in a continuous loss position for more than one year, and no other-than-temporary impairments were recognized. See also Note 4, "Restricted Cash and Investments" and Note 5, "Marketable Securities".

***Assets and Liabilities Measured at Fair Value on a Non-recurring Basis***

We measure certain assets at fair value on a non-recurring basis. These assets are recognized at fair value when they are deemed to be other-than-temporarily impaired. During the six month periods ended December 31, 2015 and 2014, we did not record any other-than-temporary impairments on those assets required to be measured at fair value on a non-recurring basis.

**(13) Segment Information**

Our operations are classified into two operating segments: wholesale and retail. These operating segments represent strategic business areas of our vertically integrated business which, although they operate separately and provide their own distinctive services, enable us to more efficiently control the quality and cost of our complete line of home furnishings and accents.

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 accents to a network of independently operated and Ethan Allen operated design centers as well as related marketing and brand awareness efforts. Wholesale revenue is generated upon the wholesale sale and shipment of our product to all retail design centers, including those operated by Ethan Allen.

The retail segment sells home furnishings and accents to consumers through a network of Company operated design centers and online through ethanallen.com. Retail revenue is generated upon the retail sale and delivery of our product to our customers.

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

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

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 each segment, we maintain revenue information according to each respective product line (i.e. case goods, upholstery, or home accents and other). A breakdown of wholesale segment sales by these product lines for the three and six months ended December 31, 2015 and 2014 is provided as follows:

	Three months ended		Six months ended	
	December 31,		December 31,	
	2015	2014	2015	2014
Case Goods	33%	32%	33%	34%
Upholstered Products	50%	49%	50%	47%
Home Accents and Other	17%	19%	17%	19%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

A breakdown of retail segment sales by these product lines for the three and six months ended December 31, 2015 and 2014 is provided as follows:

	Three months ended		Six months ended	
	December 31,		December 31,	
	2015	2014	2015	2014
Case Goods	30%	33%	30%	32%
Upholstered Products	48%	45%	47%	45%
Home Accents and Other	22%	22%	23%	23%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

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

Segment information for the three and six months ended December 31, 2015 and 2014 is provided below (in thousands):

	Three months ended December 31,		Six months ended December 31,	
	2015	2014	2015	2014
<b>Net sales:</b>				
Wholesale segment	\$ 126,413	\$ 116,210	\$ 246,868	\$ 240,810
Retail segment	164,703	153,207	310,743	298,250
Elimination of inter-company sales	(83,581)	(72,350)	(159,685)	(151,287)
Consolidated Total	<u>\$ 207,535</u>	<u>\$ 197,067</u>	<u>\$ 397,926</u>	<u>\$ 387,773</u>
<b>Operating income:</b>				
Wholesale segment	\$ 19,690	\$ 13,155	\$ 40,277	\$ 34,697
Retail segment	6,689	2,953	8,329	4,715
Adjustment of inter-company profit (1)	128	1,552	(1,199)	(1,282)
Consolidated Total	<u>\$ 26,507</u>	<u>\$ 17,660</u>	<u>\$ 47,407</u>	<u>\$ 38,130</u>
<b>Depreciation &amp; Amortization:</b>				
Wholesale segment	\$ 1,909	\$ 1,995	\$ 3,820	\$ 4,089
Retail segment	2,897	2,680	5,769	5,305
Consolidated Total	<u>\$ 4,806</u>	<u>\$ 4,675</u>	<u>\$ 9,589</u>	<u>\$ 9,394</u>
<b>Capital expenditures:</b>				
Wholesale segment	\$ 2,340	\$ 3,048	\$ 3,856	\$ 7,009
Retail segment	1,896	4,657	3,518	6,106
Acquisitions	-	-	-	1,991
Consolidated Total	<u>\$ 4,236</u>	<u>\$ 7,705</u>	<u>\$ 7,374</u>	<u>\$ 15,106</u>

	December 31, 2015	June 30, 2015
<b>Total Assets:</b>		
Wholesale segment	\$ 276,470	\$ 295,949
Retail segment	334,756	341,886
Inventory profit elimination (2)	(32,416)	(31,858)
Consolidated Total	<u>\$ 578,810</u>	<u>\$ 605,977</u>

- (1) Represents the change in wholesale profit contained in the retail segment inventory at the end of the period.  
(2) Represents the wholesale profit contained in the retail segment inventory that has not yet been realized. These profits are realized when the related inventory is sold.

**(14) Recently Issued Accounting Pronouncements**

In April 2015 the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. The new standard classifies debt issuance costs as a deduction from the debt liability, consistent with debt discounts. Prior to the issuance of ASU 2015-03, these costs were classified as assets. We adopted the provisions of ASU 2015-03 beginning in July 2015 and prior period amounts have been reclassified to conform to the current period presentation. As of June 30, 2015, \$0.3 million of debt issuance costs were reclassified in the consolidated balance sheets from other noncurrent assets to current portion of long-term debt and \$1.0 million was reclassified from other noncurrent assets to long term debt, less current portion. The adoption of ASU 2015-03 did not impact our consolidated statements of comprehensive income, or our consolidated statements of cash flows.

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

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes, which requires the Company to present all deferred tax assets and liabilities as noncurrent. This pronouncement is effective for the Company on July 1, 2017, and early adoption is permitted. The Company is currently evaluating the impact on our consolidated financial statements.

**(15) Subsequent Events**

On January 27, 2016, the Company amended its Facility by restating the definition of "Financial Covenant Exemption Period" and "Fixed Charges". The amendment is effective as of December 30, 2015.

**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, included in Item 1 of Part I of this Quarterly Report on Form 10-Q and (ii) our Annual Report on Form 10-K for the year ended June 30, 2015.

**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 potential effects of natural disasters affecting our suppliers 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; our ability to secure debt or other forms of financing; 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; the effects of terrorist attacks or conflicts or wars involving the United States or its allies or trading partners; those matters discussed in Items 1A and 7A of our Annual Report on Form 10-K for the year ended June 30, 2015 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. There have been no material changes with respect to the Company's critical accounting policies from those disclosed in its 2015 Annual Report on Form 10-K filed with the SEC on August 12, 2015.

On April 7, 2015 the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. The new standard classifies debt issuance costs as a deduction from the debt liability, consistent with debt discounts. Prior to the issuance of ASU 2015-03, these costs were classified as assets. We adopted the provisions of ASU 2015-03 beginning in July 2015 and prior period amounts have been reclassified to conform to the current period presentation. As of June 30, 2015, \$0.3 million of debt issuance costs were reclassified in the consolidated balance sheet from other noncurrent assets to current portion of long-term debt and \$1.0 million was reclassified from other noncurrent assets to long term debt, less current portion. The adoption of ASU 2015-03 did not impact our consolidated statements of comprehensive income, or our consolidated statements of cash flows.

## ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

### Overview

We are a leading interior design company and manufacturer and retailer of quality home furnishings. Founded over 80 years ago, today we're a leading international home fashion brand doing business in North America, Europe, Asia and the Middle East. We are vertically integrated from design through delivery, affording our clientele a value equation of style, quality and price that is unique to the industry. We offer complementary interior design service to our clients and sell a full range of furniture products and decorative accents through ethanallen.com and a network of 300 design centers in the United States and abroad. The design centers represent a mix of independent licensees and our own Company operated retail segment. We own and operate nine manufacturing plants including six manufacturing plants and one sawmill in the United States and a manufacturing plant each in Mexico and Honduras.

Our business model is to maintain continued focus on (i) getting our messages across with strong advertising and marketing campaigns, (ii) capitalizing on the strength of our interior design professionals and management in our retail design centers, (iii) utilizing ethanallen.com as a key marketing tool to drive traffic to a network of 200 North American design centers as 70% of our demographic base lives near a design center, (iii) investing in new technologies across key aspects of our vertically integrated business, and (iv) leveraging the benefits of our vertical integration by maintaining our North American manufacturing capacity where we manufacture approximately 70% of our products.

Our competitive advantages arise from:

- providing fashionable high quality products of the finest craftsmanship,
- offering complimentary design service through an estimated 2,000 motivated interior design professionals network-wide, which we believe makes us the world's leading interior design network,
- our wide array of custom product offerings across our upholstery, case goods, and accent product categories,
- enhancing our technology in all aspects of the business, and
- leveraging our vertically integrated structure.

We continue to make considerable investments to strengthen the level of service, professionalism, and interior design competence, as well as to improve the efficiency of our retail operations. We believe that over time, we will continue to benefit from (i) continuous repositioning of our retail network, (ii) frequent new product introductions, (iii) new and innovative marketing promotions and effective use of targeted advertising media, and (iv) continued use of the latest technology coupled with personal service from our interior design professionals. We believe our network of professionally trained interior design professionals differentiates us significantly from others in our industry.

### Results of Operations

In the second quarter of fiscal 2016, consolidated net sales of \$207.5 million increased 5.3% compared to the second quarter of fiscal 2015. During the same period, consolidated operating margin increased to 12.8% from 9.0%, and net income increased to \$0.58 from \$0.34 per diluted share. Beginning in the fall of 2014, we began a major transformation of our product offerings with several phases. We introduced Casual Classics during the first phase in the fall of 2014, focusing on relaxed finishes and comfort. In the spring and summer of 2015, we launched the second phase, Romantic Classics, with unique, stand-alone timeless pieces with new finishes and forms, designed specifically for manufacturing primarily at our North American workshops to obtain maximum benefit from our vertical integration. We launched the third phase in the fall of 2015, where we further developed Romantic Classics, inspired by European designs, taking inspiration from the classics and modernizing them for today's living, with continued focus on North American manufacturing. In our fourth phase, during the spring and summer of 2016, we will further develop our Casual Classics, with romantic country influences and will also introduce several other new programs that will continue to differentiate our brand. As we implement these major product introductions, our wholesale segment undergoes some disruptions in manufacturing as we change tooling and methods, build prototypes and then ramp up production. In our retail segment, some disruption also occurs in our design centers as we update floor displays, and sell the remainder of our older products on clearance to make space for the new product. We are undergoing this product transformation in measured steps to minimize these disruptions, and preserve our reputation in the industry as a leader in quality. During this second quarter of fiscal 2016, we began a shift from transition to growth, with a 5.3% increase in consolidated net sales, with increases in both our wholesale and retail segments. The U.S. dollar continues to strengthen over the Canadian dollar, with a negative impact on sales in our retail segment.

## ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

During this second fiscal quarter, our retail segment had slightly lower gross margins due to sales promotions, product mix, clearance sales and currency fluctuation in our international operations. We anticipate continuing sales promotions and during the second half we expect continuing clearance sales as we make room for the fourth phase of the product refresh. The gross margin of our wholesale segment improved over the second quarter of fiscal 2015 as we maintained our current level of efficiency in manufacturing the newly designed products in our North American workshops, with gross profit increasing due to higher sales.

Comparing the second quarters of fiscal 2016 and fiscal 2015, net sales increased by 7.5% in our retail segment, and by 8.8% in our wholesale segment. The ratio of retail segment net sales to consolidated net sales for the second quarter was 79.4% compared to 77.7%. The consolidated gross margin was 55.9% for the second quarter of fiscal 2016 and 53.8% for the second quarter of fiscal 2015, and operating expenses as a percentage of total net sales were 43.1% in the second quarter of fiscal 2016 compared to 44.9%.

Written orders booked by the retail segment in the second quarter of fiscal 2016 increased by 15.3% as compared to the same quarter of fiscal 2015, and comparable written orders increased by 14.6% in the same period. As we transition the major new product introductions, both at retail and at the manufacturing level, we are varying the timing and duration of our sale events this fiscal year, as compared to monthly promotions in the prior fiscal year. We believe that the impact of our varied promotions and the new product programs are having a positive impact on written orders. We operate five design centers in Canada, and the strengthening of the U.S. dollar to the Canadian dollar and euro resulted in an average decrease on a constant currency basis for the retail segment of 0.9% in net sales and a 1.0% decrease in written and comparable orders during the quarter ending December 31, 2015.

We measure the performance of our retail design centers based on net sales and written orders booked on a comparable period to period basis. Comparable design centers are those which have been operating for at least 15 months. Minimal net sales derived from the delivery of customer ordered product are generated during the first three months of operations of newly opened (including relocated) design centers. Design centers acquired by us from independent retailers are included in comparable design center sales in their 13th full month of Ethan Allen-owned operations. The frequency of our promotional events as well as the timing of the end of those events can impact the orders booked during a given quarter. Our international net sales are comprised of our wholesale segment sales to independent retailers and our retail segment sales to consumers through the Company operated international Design Centers. International net sales as a percent of our consolidated net sales were 8.5% for the second quarter of fiscal 2016 and 10.7% for the comparable prior year period. The following tables show selected Design Center location information.

**ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES**

	Year-to-date Fiscal 2016			Year-to-date Fiscal 2015		
	Independent retailers	Company- operated	Total	Independent retailers	Company- operated	Total
<b>Retail Design Center location activity:</b>						
Balance at beginning of period	155	144	299	152	143	295
New locations	10	3	13	14	1	15
Closures	(5)	(5)	(10)	(11)	(2)	(13)
Transfers	-	-	-	(2)	2	-
Balance at end of period	<u>160</u>	<u>142</u>	<u>302</u>	<u>153</u>	<u>144</u>	<u>297</u>
Relocations (in new and closures)	1	1	2	6	1	7
<b>Retail Design Center geographic locations:</b>						
United States	55	137	192	58	135	193
International	<u>105</u>	<u>5</u>	<u>110</u>	<u>95</u>	<u>9</u>	<u>104</u>
Total	<u>160</u>	<u>142</u>	<u>302</u>	<u>153</u>	<u>144</u>	<u>297</u>

**Second Quarter Ended December 31, 2015 Compared to Second Quarter Ended December 31, 2014**

**Consolidated net sales** for the second quarter of fiscal 2016 increased 5.3% to \$207.5 million from \$197.1 million in the second quarter of fiscal 2015. Net sales increased in both our retail and wholesale segments.

**Wholesale net sales** for the second quarter of fiscal 2016 increased 8.8% to \$126.4 million from \$116.2 million in the second quarter of fiscal 2015. Sales increased to both our retail segment and domestic independent dealers. This was partly offset by a reduction in international sales, primarily to our independent dealer in China, where a slowdown in the rate of economic growth has been widely reported. Since June 30, 2015 there have been five net additional independent retailer Design Centers.

**Retail net sales** for the second quarter of fiscal 2016 increased 7.5% to \$164.7 million from \$153.2 million for the second quarter of fiscal 2015. We are now into the third phase of our new product introduction and the increased sales are reflective of the new products gaining traction and our increased marketing initiatives during the current quarter. Retail operates two less Design Centers than one year ago. We continue to be impacted by sales discounts, as well as the effect of exchange rates on our Canadian design centers. Our written business (new orders booked) in the second quarter of fiscal 2016 increased 15.3% while comparable design center written business increased 14.6% compared to the second quarter of fiscal 2015. At December 31, 2015, the retail undelivered backlog was 12.7% higher than a year ago.

**Gross profit** was \$116.1 million for the second quarter of fiscal 2016, an increase of \$10.0 million, or 9.4%, from \$106.1 million in the second quarter of fiscal 2015 with increases in both our retail and wholesale segments. Consolidated gross margin for the second quarter of fiscal 2016 was 55.9% compared to 53.8% in fiscal 2015. Increased wholesale sales of 8.8% increased our manufacturing efficiency, increasing gross profit and gross margins. Retail sales as a percent of total sales increased to 79.4% from 77.7%, further increasing our consolidated gross margin due to mix, and the retail sales increase of 7.5% increasing consolidated gross profit.

**Operating expenses** for the second quarter of fiscal 2016 increased \$1.1 million, or 1.3%, to \$89.6 million from \$88.4 million for the second quarter of fiscal 2015. Variable costs increased due to increased sales for the retail segment, which were partly offset by gains on real estate sales in the current period and losses in the prior year period.

## ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

**Operating income and profit margin** for the second quarter of fiscal 2016 was \$26.5 million, or 12.8% of net sales, an increase of \$8.8 million, or 50.1%, from \$17.7 million, or 9.0% of net sales for the second quarter of fiscal 2015.

**Wholesale operating income** for the second quarter of fiscal 2016 was \$19.7 million, or 15.6% of sales, compared to \$13.2 million, or 11.3% of sales, for the second quarter of fiscal 2015, increasing largely due to higher volume of sales.

**Retail operating income** for the second quarter of fiscal 2016 was \$6.7 million, or 4.1% of sales, compared to \$3.0 million, or 1.9% of sales for the second quarter of fiscal 2015, with a higher operating margin in the current quarter driven primarily by higher sales, as well as the positive impact of real estate sales.

**Interest and other related financing costs** were approximately \$1.5 million lower in the second quarter of fiscal 2016 than in the second quarter of fiscal 2015. The early extinguishment of our \$200 million, ten year senior unsecured notes due October 1, 2015 (the "Senior Notes") reduced the amount of interest beginning March 18, 2015. Interest expense on the Senior Notes had been \$1.8 million per quarter, or 5.7% annually on the face value of the Senior Notes. Future interest expense will vary depending on variable interest rates and amounts borrowed under our five year, \$150 million senior secured revolving credit and term loan facility (the "Facility").

**Income tax expense** for the second quarter of fiscal 2016 totaled \$9.6 million compared to \$5.8 million for the second quarter of fiscal 2015. Our effective tax rate was 36.7% in both the current and prior year quarter. The effective tax rate for both the current and prior year quarters primarily include tax expense on that quarter's net income, and tax and interest expense on uncertain tax positions, partly offset by the reversal and recognition of some uncertain tax positions.

**Net income** for the second quarter of fiscal 2016, was \$16.5 million compared to \$10.0 million for the second quarter of fiscal 2015. This resulted in net income per diluted share of \$0.58 for the second quarter of fiscal 2016 compared to \$0.34 per diluted share for the second quarter of fiscal 2015.

### *Six Months Ended December 31, 2015 Compared to Six Months Ended December 31, 2014*

**Consolidated net sales** for the six months ended December 31, 2015 increased 2.6% to \$397.9 million from \$387.8 million for the six months ended December 31, 2014. Net sales increased in both our retail and wholesale segments.

**Wholesale net sales** for the six months ended December 31, 2015 increased 2.5% to \$246.9 million from \$240.8 million in the prior year comparable period. Improvements in efficiency during the second fiscal quarter more than offset first fiscal quarter disruptions caused by the first runs of new products. Seven additional independent retailer Design Centers were added during the period.

**Retail net sales** from the Company's retail segment for the six months ended December 31, 2015 increased 4.2% to \$310.7 million from \$298.3 million for the prior year comparable period. Most of the increase occurred during this quarter. There was a net decrease of two Design Centers from one year ago. We were also negatively impacted by sales discounts, as well as the effect of exchange rates on our Canadian design centers. Our written business (new orders booked) in the first six months of fiscal 2016 increased 1.8% while comparable design center written business increased 1.2% compared to the comparable period of fiscal 2015. The timing of our annual price increase resulted in shifting some written sales into the quarter ending June 30, 2015.

**Gross profit** was \$220.7 million for the six months ended December 31, 2015, an increase of \$9.9 million, or 4.7%, from \$210.9 million in the prior year comparable period with increases in both our retail and wholesale segments. Consolidated gross margin for the first six months of fiscal 2016 was 55.5% compared to 54.4% in fiscal 2015. Sales growth for both wholesale and retail segments was the primary reason for the increase, along with an increase in retail sales as a percent of total sales to 78.1% from 76.9%.

**Operating expenses** for the first six months of fiscal 2016 increased \$0.6 million, or 0.3%, to \$173.3 million from \$172.7 million in the prior year comparable period, and were 43.6% of sales in the current fiscal year and 44.5% in the prior fiscal year. Expenses increased in absolute dollars due to the 2.6% increase in sales, and decreased as a percent of sales due to a real estate gain in the current period compared to losses in the prior year.

## ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

**Operating income and profit margin** for the first six months of fiscal 2016 was \$47.4 million, or 11.9% of net sales, an increase of \$9.3 million, or 24.3%, from \$38.1 million, or 9.8% of net sales for the first six months of fiscal 2015.

**Wholesale operating income** for the six months ended December 31, 2015 was \$40.3 million, or 16.3% of sales, compared to \$34.7 million, or 14.4% of sales, in the prior year comparable period, increasing largely due to higher volume of sales.

**Retail operating income** for the six months ended December 31, 2015 was \$8.3 million, or 2.7% of sales, compared to \$4.7 million, or 1.6% of sales in the prior year comparable period, with a higher operating margin driven primarily by increased sales, along with a positive impact from the sale of real estate.

**Interest and other related financing costs** were approximately \$2.9 million lower in the first six months of fiscal 2016 than in the first six months of fiscal 2015. The early extinguishment of our Senior Notes reduced the amount of interest beginning March 18, 2015. Interest expense on the Senior Notes had been \$1.8 million per quarter, or 5.7% annually on the face value of the Senior Notes. Future interest expense will vary depending on variable interest rates and amounts borrowed under the Facility.

**Income tax expense** for the six months ended December 31, 2015 totaled \$17.0 million compared to \$12.7 million for the six months ended December 31, 2014. Our effective tax rate for the current fiscal year was 36.4% compared to 36.6% in the prior fiscal year. The effective tax rate for both the current and prior fiscal year primarily include tax expense on that fiscal year's net income, and tax and interest expense on uncertain tax positions, partly offset by the reversal and recognition of some uncertain tax positions.

**Net income** for the six months ended December 31, 2015, was \$29.7 million compared to \$21.9 million in the prior year comparable period. This resulted in net income per diluted share of \$1.04 for six months ended December 31, 2015 compared to \$0.75 per diluted share for the six months ended December 31, 2014.

### Liquidity and Capital Resources

At December 31, 2015, we held unrestricted cash and equivalents of \$57.0 million and restricted cash and investments of \$7.8 million. At June 30, 2015, we held unrestricted cash and cash equivalents of \$76.2 million, marketable securities of \$2.2 million, and restricted cash and investments of \$8.0 million. Our principal sources of liquidity include cash and cash equivalents, cash flow from operations, amounts available under the Facility, and other borrowings.

Total debt obligations at December 31, 2015 and June 30, 2015 consist of the following (in thousands):

	December 31, 2015	June 30, 2015
Revolving Credit Facility due 10/21/2019	\$ 40,000	\$ 40,000
Term Loan due 10/21/2019	17,333	35,000
Capital leases	2,010	2,568
Unamortized debt issuance costs	(1,177)	(1,331)
<b>Total debt</b>	<b>58,166</b>	<b>76,237</b>
Less current maturities	3,053	3,034
<b>Total long-term</b>	<b>\$ 55,113</b>	<b>\$ 73,203</b>

In September 2005, we issued the Senior Notes. The Company entered into the Facility on October 21, 2014, as amended January 28, 2015. The Facility amended and restated the previous five-year, \$50 million secured revolving credit facility in its entirety. The Facility, which expires on October 21, 2019, provides a term loan of up to \$35 million and a revolving credit line of up to \$115 million, subject to borrowing base availability. During March 2015, we utilized \$35 million of the term loan and \$40 million of the revolving credit line, along with our available cash to fully redeem our Senior Notes. We incurred financing costs of \$1.5 million under the Facility, which are being amortized by the straight-line method, which approximates the interest method, over the remaining life of the Facility.

## ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

At the Company's option, revolving loans under the Facility bear interest, based on the average availability, at an annual rate of either (a) the London Interbank Offered rate ("LIBOR") plus 1.5% to 1.75%, or (b) the higher of (i) the prime rate, (ii) the federal funds effective rate plus 0.50%, or (iii) LIBOR plus 1.0% plus in each case 0.5% to 0.75%. At December 31, 2015 the annual interest rate in effect on the revolving loan was 1.9375%.

At the Company's option, term loans under the Facility bear interest, based on the Company's rent adjusted leverage ratio, at an annual rate of either (a) LIBOR plus 1.75% to 2.25%, or (b) the higher of (i) the prime rate, (ii) the federal funds effective rate plus 0.50%, or (iii) LIBOR plus 1.0% plus in each case 0.75% to 1.25%. At December 31, 2015 the annual interest rate in effect on the term loan was 2.1875%.

The Company pays a commitment fee of 0.15% to 0.25% per annum on the unused portion of the Facility, and fees on issued letters of credit at an annual rate of 1.5% to 1.75% based on the average availability. Certain payments are restricted if the availability under the revolving credit line falls below 20% of the total revolving credit line, and the Company is subject to pro forma compliance with the fixed charge coverage ratio, if applicable.

Quarterly installments of principal on the term loan are payable based on a straight line 15 year amortization period, with the balance due at maturity. The Company does not expect to repay the revolving credit line portion of the Facility within the next year.

The Facility is secured by all property owned, leased or operated by the Company in the United States and includes certain real property owned by the Company and contains customary covenants which may limit the Company's ability to incur debt; engage in mergers and consolidations; make restricted payments (including dividends and share repurchases); sell certain assets; and make investments.

The Company must maintain a minimum fixed charge coverage ratio of 1.1 to 1.0 at all times. If the outstanding term loans are less than \$17.5 million and the fixed charge coverage ratio equals or exceeds 1.25 to 1.0, the fixed charge coverage ratio ceases to apply and thereafter shall only be triggered if average monthly availability is less than 15% of the amount of the revolving credit line. At September 30, 2015 our fixed charge coverage ratio was 1.4 to 1.0. During November 2015, we made a \$16.5 million prepayment on the term loan, bringing the outstanding term loan to \$17.3 million, and the fixed charge coverage ratio ceased to apply. Our average availability during the quarter ended December 31, 2015 was 65.0%.

The Company intends to use the Facility for working capital and general corporate purposes, including dividend payments and share repurchases, in addition to the refinancing of our Senior Notes which occurred in March 2015. At both December 31, 2015 and June 30, 2015, there was \$0.2 million of standby letters of credit outstanding under the Facility and total availability under the Facility of \$74.8 million.

At both December 31, 2015 and June 30, 2015, we were in compliance with all of the covenants under the Facility.

We remain in discussions with our bankers on enhancing our capital structure and alternatives to raise up to \$250 million in long-term debt financing. The funds would be utilized for our general corporate needs and to further increase shareholder returns. However, there can be no assurances that the financing will be completed, as it is subject to market and other customary conditions.

**ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES**

A summary of net cash provided by (used in) operating, investing, and financing activities for the six months ended December 31, 2015 and 2014 is provided below (in millions):

	December 31,	
	2015	2014
<b>Operating Activities</b>		
Net income plus depreciation and amortization	\$ 39.3	\$ 31.3
Working capital items	(19.2)	(24.5)
Other operating activities	0.9	3.7
Total provided by operating activities	<u>\$ 21.0</u>	<u>\$ 10.5</u>
<b>Investing Activities</b>		
Capital expenditures and acquisitions	\$ (7.4)	\$ (15.1)
Net sales of marketable securities	2.1	8.9
Other investing activities	2.2	7.5
Total provided by investing activities	<u>\$ (3.1)</u>	<u>\$ 1.3</u>
<b>Financing Activities</b>		
Payments on long-term debt and capital lease obligations	\$ (18.2)	\$ (0.3)
Payment of cash dividends	(8.0)	(6.4)
Purchase/retirement of company stock	(11.4)	-
Other financing activities	0.8	(0.9)
Total used in financing activities	<u>\$ (36.8)</u>	<u>\$ (7.6)</u>

**Operating Activities**

In the first six months of fiscal 2016, cash of \$21.0 million was provided by operating activities, an increase of \$10.6 million from the prior year comparable period. This was largely due to an increase in net income as well as less cash used in fiscal year 2016 for working capital in the ordinary course of business (primarily prepaid and other current assets and timing of payments on trade payables offset by accrued expenses), as well as changes to other working capital items (defined below). Working capital items consist of current assets (accounts receivable, inventories, prepaid and other current assets) less current liabilities (customer deposits, payables, and accrued expenses and other current liabilities).

**Investing Activities**

In the first six months of fiscal 2016, \$3.1 million of cash was used in investing activities, whereas \$4.3 million less cash was used in the prior year comparable period. Less cash was provided in the first six months of fiscal 2016 primarily due to decreases in net sales of marketable securities in the current fiscal year as well as less proceeds from the sale of real estate in the current fiscal year than in the prior fiscal year, partly offset by decreased current fiscal year capital expenditures. We anticipate that cash from operations will be sufficient to fund future capital expenditures.

**Financing Activities**

In the first six months of fiscal 2016, \$36.8 million was used in financing activities, which is \$29.3 million more cash used than was used during the first six months of fiscal 2015. This was due to a \$16.5 million prepayment on the term loan, repurchasing \$11.4 million of our common stock and an increase of \$1.6 million in our dividend payments. Two quarterly dividends were paid in the first six months of fiscal 2016 with an increase of 27.3% over the prior fiscal year. The Company has continuously paid dividends for every quarter since 1996 and we expect to continue to do so as economic conditions and liquidity permit.

**ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES**

Our total debt obligations at December 31, 2015 consist of the following (in millions):

Revolving Credit Facility due 10/21/2019	\$	40.0
Term Loan due 10/21/2019	\$	17.3
Capital leases	\$	2.0
Unamortized debt issuance costs	\$	(1.1)
<b>Total debt</b>	<b>\$</b>	<b>58.2</b>
Less current maturities	\$	3.1
<b>Total long-term</b>	<b>\$</b>	<b>55.1</b>

The following table summarizes, as of December 31, 2015, the timing of cash payments related to our outstanding long-term debt obligations for the remaining six months of fiscal 2016, and each of the five fiscal years subsequent to June 30, 2016, and thereafter (in millions).

Periods ending June 30,		
2016	\$	1.6
2017	\$	3.3
2018	\$	2.8
2019	\$	2.4
2020	\$	49.2
2021 and thereafter	\$	-
<b>Total scheduled debt payments</b>	<b>\$</b>	<b>59.3</b>

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 Operations of our Annual Report on Form 10-K for the year ended June 30, 2015 as filed with the SEC on August 12, 2015.

We believe that our cash flow from operations, together with our other available sources of liquidity including the Facility and refinancing alternatives, 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 December 31, 2015, we had working capital of \$128.0 million compared to \$130.0 million at June 30, 2015, a decrease of \$2.0 million, or 1.5%. The Company had a current ratio of 2.06 to 1 at December 31, 2015 and 1.92 to 1 at June 30, 2015.

In addition to using available cash to fund changes in working capital, capital expenditures, acquisition activity, the repayment of debt, the payment of dividends, and debt repurchases, we have been authorized by our Board of Directors to repurchase shares of our common stock from time to time, either directly or through agents, in the open market at prices and on terms satisfactory to us. All of our common stock repurchases and retirements are recorded as treasury stock and result in a reduction of shareholders’ equity. During the six months ending December 31, 2015 we repurchased the following shares of our common stock:

	Six months ended December 31,	
	2015	2014
Common shares repurchased	441,329	-
Cost to repurchase common shares	\$ 12,203,213	\$ -
Average price per share	\$ 27.65	\$ -

At December 31, 2015, we had a remaining Board authorization to repurchase 2,014,330 shares of our common stock.

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

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.

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. The only such program in place both at December 31, 2015 and June 30, 2015 was for our consumer credit program.

**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 the Company and that financial service provider (the "Program Agreement") which was last amended effective January 2014. 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. The term of the Program Agreement ends July 31, 2019, including a provision for automatic one year renewals unless either party gives notice of termination. While the maximum potential amount of future payments (undiscounted) that we could be required to make under this obligation is indeterminable, recourse provisions exist that would enable us to recover, from the independent retailer, any amount paid or incurred by us related to our performance. Based on the underlying creditworthiness of our independent retailers, including their historical ability to satisfactorily perform in connection with the terms of our consumer credit program, we believe this obligation will expire without requiring funding by us. To ensure funding for delivery of products sold, the terms of the Program Agreement also contain a right for the financial services provider to demand from the Company collateral at a variable rate based on the volume of program sales if the Company does not meet certain covenants. At December 31, 2015 and June 30, 2015, no collateral was required under the Program Agreement.

**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 occasions, 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 both probable and estimable. It is reasonably possible that, from time to time, additional warranty and other related claims could arise from disputes or other matters beyond the scope of our historical experience. As of December 31, 2015 and June 30, 2015, our product warranty liability totaled \$1.1 million and \$1.0 million, respectively.

**Business Outlook**

We continue to strengthen our vertically integrated structure from concept of idea, to engineering, to manufacturing, to retail and logistics. On the manufacturing side, our objective is to maintain strong manufacturing capabilities in North America, which we believe is a long-term competitive advantage that will allow us to advance our objectives of maintaining short order times, exceptional quality and improving capacity to ship custom made to order items more quickly, which in turn will allow us to grow our business. In September 2015, the Company announced the planned doubling of its upholstery manufacturing facility in Mexico, and as a result, expanded production from the expansion is projected within the next 18 to 24 months.

## ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Beginning in fiscal 2014, we have been undergoing a major transformation of our product offerings, which will refresh over 70% of our products with the completion of phase 4 product introductions expected in the fourth quarter. We plan on completing this transition during the summer of 2016. We are anticipating that by fiscal 2017 we will be well positioned to leverage all the actions we have taken and expect to see a significant improvement in our business performance, both through increased revenues and improvements in operating efficiencies.

We expect the home furnishings industry to remain extremely competitive with respect to both the sourcing of products and the wholesale and retail sale of those products for the foreseeable future. Domestic manufacturers continue to face pricing pressures because of the lower manufacturing costs in some other countries, particularly within Asia. While we also utilize overseas sourcing on about a third of our products, we choose to differentiate ourselves by maintaining a substantial North American manufacturing base, where we can leverage our vertically integrated structure to our advantage. We continue to believe that a balanced approach to product sourcing, which includes our own North American manufacturing of about 70% of our 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 therefore remain cautiously optimistic about our performance due to the many strong programs already in place and others we currently plan to introduce in the coming months. Our retail strategy involves (i) a continued focus on providing new product introductions, a wide array of product solutions, and superior interior design solutions through our large staff of interior design professionals, (ii) continuing strong advertising and marketing campaigns to get our message across and to continue broadening our customer base, (iii) the opening of new or relocated design centers in more prominent locations, and encouraging independent retailers to do the same, (iv) leveraging the use of technology and personal service within our retail network and online through ethanallen.com, and (v) further expansion internationally. We believe this strategy provides an opportunity to grow our business.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to market risks relating to fluctuations in interest rates.

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

For floating-rate obligations, interest rate changes do not affect the fair value of the underlying financial instrument but would impact future earnings and cash flows, assuming other factors are held constant. Conversely, for fixed-rate obligations, interest rate changes affect the fair value of the underlying financial instrument but would not impact earnings or cash flows. At December 31, 2015, we had \$57.3 million of floating-rate debt obligations outstanding under our credit facility. We currently do not engage in any interest rate hedging activity and we have no intention of doing so in the foreseeable future. Based on the average interest rate on the credit facility during the quarter ended December 31, 2015, and to the extent that borrowings were outstanding, a 10% change in the interest rate would not have a material effect on our consolidated results of operations and financial condition. For information regarding the Company's other risk factors, see Part II, Item 7A – Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K for the year ended June 30, 2015 as filed with the SEC on August 12, 2015.

**ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES**

**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 Executive Vice President Administration and Chief Financial Officer ("CFO"), 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 CFO have concluded that, as of December 31, 2015, 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 CFO, 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 December 31, 2015 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 for the year ended June 30, 2015 as filed with the SEC on August 12, 2015.

**Item 1A. Risk Factors**

There have been no material changes to the matters discussed in Part I, Item 1A – Risk Factors in our Annual Report on Form 10-K for the year ended June 30, 2015 as filed with the SEC on August 12, 2015.

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

***Issuer Purchases of Equity Securities***

Certain information regarding purchases made by or on behalf of us 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 December 31, 2015 on a trade date basis is provided below:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2015 - October 31, 2015	-	-	-	2,455,659
November 1, 2015 - November 30, 2015	-	\$ -	-	2,455,659
December 1, 2015 - December 31, 2015	441,329	\$ 27.65	441,329	2,014,330

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Not applicable.

## ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

### Item 6. Exhibits

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of the Company dated as of March 23, 1993, Certificate of Amendment to Restated Certificate of Incorporation dated as of August 5, 1997, Second Certificate of Amendment to Restated Certificate of Incorporation dated as of March 27, 1998, Third Certificate of Amendment to Restated Certificate of Incorporation dated as of April 28, 1999, Fourth Amendment to Restated Certificate of Incorporation dated as of December 5, 2013, Fifth Amendment to Restated Certificate of Incorporation dated as of December 11, 2015.
10.1	Amendment No. 3, dated as of January 22, 2016, to the Amended and Restated Credit Agreement dated as of October 21, 2014 among Ethan Allen Global, Inc., Ethan Allen Interiors Inc., J.P.Morgan Chase Bank, N.A. and Capital One, National Association (incorporated by reference to the Quarterly Report on Form 10-Q of the Company filed with the SEC on January 27, 2016).
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 1350Certification of Principal Executive Officer
32.2	Section 1350 Certification of Principal Financial Officer
101.INS**	XBRL Instance
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation
101.DEF**	XBRL Taxonomy Extension Definition
101.LAB**	XBRL Taxonomy Extension Labels
101.PRE**	XBRL Taxonomy Extension Presentation

**\*\* XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is not deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.**

**ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES**

**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: January 27, 2016

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

DATE: January 27, 2016

BY: /s/ Corey Whitely  
Corey Whitely  
Executive Vice President Administration  
Chief Financial Officer and Treasurer  
(Principal Financial Officer)

## ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

### EXHIBIT INDEX

#### Exhibit Number Exhibit

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**RESTATED CERTIFICATE OF INCORPORATION  
OF  
ETHAN ALLEN INTERIORS INC.**

\* \* \* \* \*

ETHAN ALLEN INTERIORS INC., a Delaware corporation (the "Corporation") hereby certifies as follows:

1. The name of the Corporation is Ethan Allen Interiors Inc. and the name under which the Corporation was originally incorporated was Green Mountain Holding Corporation. The date of the filing of its original Certificate of Incorporation with the Secretary of State was May 25, 1989.
2. The Corporation previously amended and restated its Certificate of Incorporation by filing a Restated Certificate of Incorporation with the Secretary of State of Delaware on each of June 28, 1989, June 29, 1989 and March 19, 1991, and by filing a Certificate of Amendment on January 27, 1993.
3. This Restated Certificate of Incorporation was duly adopted in accordance with Section 242 and Section 245 of the Delaware General Corporation Law (the "Delaware Law").
4. The text of the Certificate of Incorporation of the Corporation as hereby and heretofore amended or supplemented is hereby amended and restated to read as herein set forth in full:

FIRST: The name of the Corporation is Ethan Allen Interiors Inc.

SECOND: The address of its registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, City of Wilmington, County of New Castle, Delaware 19801. The name of its registered agent at such address is The Corporation Trust Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware as the same exists or may hereafter be amended (the "Delaware Law").

FOURTH: The total number of shares of capital stock which the Corporation shall have authority to issue is 26,655,000 shares, consisting of 25,000,000 shares of Common Stock, par value \$0.01 per share (the "Common Stock"), 600,000 shares of Class B Common Stock, par value \$0.01 per share (the "Class B Common Stock"), and 1,055,000 shares of Preferred Stock, par value \$0.01 per share (the "Preferred Stock").

**A. PREFERRED STOCK**

The Board of Directors is expressly authorized to provide for the issuance of all or any shares of the Preferred Stock in one or more classes or series, and to fix for each such class or series such voting powers, full or limited, or no voting powers, and such distinctive designations, preferences and relative, participating, optional or other special rights and such qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolution or resolutions adopted by the Board of Directors providing for the issuance of such class or series and as may be permitted by the General Corporation Law of the State of Delaware, including, without limitation, the authority to provide that any such class or series may be (i) subject to redemption at such time or times and at such price or prices and upon such terms and conditions; (ii) entitle to receive dividends (which may be cumulative or non-cumulative) at such rates, on such conditions, and at such times, and payable in preference to, or in such relation to, the dividends payable on any other class or classes or any other series; (iii) entitled to such rights upon the dissolution of, or upon any distribution of the assets of, the Corporation; or (iv) convertible into, or exchangeable for, shares of any other class or classes of stock, or of any other series of the same or any other class or classes of stock, or debt or obligations, of the Corporation at such price or prices or at such rates of exchange and with such adjustments and upon such terms and conditions; all as may be stated in such resolution or resolutions.

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## B. COMMON STOCK

Except as herein otherwise expressly provided, all shares of Common Stock and Class B Common Stock (collectively referred to herein as "All Common Stock") shall be identical and shall entitle the holders thereof to the same rights and privileges.

1. Dividends. Subject to the preferences and other rights of any class or series of Preferred Stock then outstanding, the Board of Directors of the Corporation may cause dividends to be paid to the holders of shares of All Common Stock out of funds legally available for the payment of dividends by declaring an amount per share as a dividend. When and as dividends are declared, whether payable in cash, in property or in shares of stock of the Corporation, the holders of All Common Stock shall be entitled to share equally, share for share, in such dividends. No dividends shall be declared or paid in shares of All Common Stock, or options, warrants, or rights to acquire such stock or securities convertible into or exchangeable for shares of All Common Stock, except dividends payable ratably according to the number of shares of the class (Common Stock or Class B Common Stock) of All Common Stock held by such holders, in shares of, or securities convertible into or exchangeable for, the class of All Common Stock (Common Stock or Class B Common Stock) as is held by that holder, be it Common Stock or Class B Common Stock. Neither the Common Stock nor the Class B Common Stock may be subdivided, split, consolidated or reclassified unless the other is ratably subdivided, split, consolidated or reclassified.

2. Liquidation Rights. Subject to the preferences and other rights of any class or series of Preferred Stock then outstanding, in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, the holders of All Common Stock shall be entitled, to share, ratably according to the number of shares of All Common Stock held by them, in all remaining assets of the Corporation available for distribution to its stockholders.

3. Voting Rights. Except as otherwise provided in this Certificate of Incorporation (including, without limitation, any amendments to, restatements of or designations regarding any series or class of Preferred Stock) or by applicable law, only the holders of Common Stock shall be entitled to vote on each matter on which the stockholders of the Corporation shall be entitled to vote, and each holder of Common Stock shall be entitled to one vote for each share of Common Stock held by him; provided, however, (i) the holders of Class B Common Stock shall have no right to vote on any matters to be voted on by the stockholders of the Corporation and (ii) the Class B Common Stock shall not be included in determining the number of shares voting or entitled to vote on such matters.

### 4. Conversion of Class B Common Stock: Reservation of Shares

a. Subject to and upon compliance with the provisions of this paragraph 4, each record holder of Class B Common Stock may convert the number of shares of his Class B Common Stock specified in the following clauses (i) and (ii) into the same number of shares of Common Stock if such shares of Common Stock are concurrently, or immediately thereafter, sold in accordance with the following:

I (i) such shares of Common Stock are sold by such holder in a public offering pursuant to an effective registration statement filed by the Corporation under the Securities Act of 1933, as amended (the "1933 Act"), provided that the number of shares of Class B Common Stock so converted does not exceed the number of shares of Common Stock actually sold by such holder pursuant to such registration statement; or

(ii) such shares of Common Stock are sold by such holder pursuant to Rule 144 (or any successor rule) promulgated under the 1933 Act, provided that the number of shares of Class B Common Stock so converted does not exceed the number of shares of Common Stock shown in the Form 144 filed by such holder in connection with such sale.

b. Each conversion of shares of Class B Common Stock into Common Stock shall be effected by the surrender of the certificate or certificates representing shares of Class B Common Stock to be converted at the principal office of the Corporation (or such other office or agency of the Corporation as the Corporation may designate by notice in writing to the holder or holders of Class B Common Stock) at any time during its usual business hours, which notice shall also state the name or names (with addresses) and denominations in which the certificate or certificates for Common Stock shall be issued and shall include instructions for delivery thereof. Such stock certificate and notice shall be accompanied by, if the conversion is made pursuant to clause (ii) of subparagraph a, an executed copy of the notice on Form 144 required to be filed by such holder with the Securities and Exchange Commission. Promptly after such surrender and the receipt of such written notice, the Corporation shall issue and deliver in accordance with such instructions the certificate or certificates for the Common Stock issuable upon such conversion. To the extent permitted by law, such conversion shall be deemed to have been effected as of the close of business on the date on which such certificate or certificates shall have been surrendered and such notice, if required hereunder, shall have been received.

c. The Corporation shall at all times reserve and keep available out of its authorized but unissued shares or in treasury a sufficient number of shares of Common Stock as may be required, solely for the purpose of issue upon the conversion of outstanding shares of Class B Common Stock as provided in this paragraph 4. The Corporation covenants that all shares of Common Stock which shall be so issuable shall, when issued, be duly and validly issued, fully paid and non-assessable, free of any preemptive rights. The Corporation will use reasonable efforts to take all such action as may be necessary to assure that all such shares of Common Stock may be so issued without violation of any applicable law or regulation or any requirements of any domestic stock exchange upon which shares of Common Stock may be listed.

d. The issuance of certificates for shares of Common Stock upon conversion of shares of Class B Common Stock shall be made without charge to the holders of such shares of Class B Common Stock for any issuance tax in respect thereof, or other cost incurred by the Corporation in connection with such conversion and the related issuance of shares of Common Stock, provided that the Corporation shall not be required to pay any such tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than that of the holder of the Class B Common Stock converted. The Corporation will not take any action which would cause the total number of shares of Common Stock issuable upon conversion of the Class B Common Stock then outstanding, together with the total number of shares of Common Stock then outstanding and the total number of shares of Common Stock reserved for issuance upon conversion of the Preferred Stock or for any other purpose, to exceed the total number of shares of Common Stock then authorized by the Corporation's Certificate of Incorporation. The Corporation will not take any action which has the purpose or effect of delaying or hindering the timely transfer or conversion of any share of Class B Common Stock or of any share of Common Stock issued or issuable upon the conversion of such shares.

FIFTH: Business Combinations with or involving an Interested Person, as those terms are defined in this ARTICLE FIFTH, shall be subject to the requirements of this ARTICLE FIFTH.

## A. DEFINITIONS

For purposes of this ARTICLE FIFTH:

An "affiliate" of a specified person is a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the specified person.

An "associate" of a specified person is (i) any person of which the specified person is an officer or partner or is, directly or indirectly, the beneficial owner of 10 percent or more of any class of equity securities; (ii) any trust or other estate in which the specified person owns 10 percent or more of the total beneficial interest or as to which the specified person serves as trustee or executor or in a similar fiduciary capacity; (iii) any relative or spouse of the specified person, or any relative of such spouse who has the same home as the specified person; (iv) any person who is a director or officer of the specified person or any corporation which controls or is controlled by the specified person; or (v) any other member or partner in a partnership, limited partnership, joint venture, syndicate or other entity or group, formal or informal, of which the specified person is a member or partner and which is acting together for the purpose of acquiring, holding or disposing of securities of the Corporation.

A "Business Combination" is (i) any merger or consolidation of the Corporation or any subsidiary of the Corporation with or into any other corporation or entity (other than such a merger or consolidation solely with a wholly-owned subsidiary of the Corporation); (ii) any sale, lease, exchange, mortgage, pledge, transfer or other disposition, in one or more transactions, whether as part of a dissolution or otherwise, of all or any substantial part of the assets of the Corporation and its subsidiaries on a consolidated basis (other than solely (a) in connection with any (1) customer, consumer or dealer credit card, revolving debt or other purchase finance program, or (2) lending, leasing or other credit or financing arrangement involving an Interested Person (b) in connection with any refinancing, replacement, restatement or substitution of any obligations or liabilities of the Company or any subsidiary of the Company, or (c) to a wholly-owned subsidiary of the Corporation); (iii) any transaction with an Interested Person which results in the issuance or transfer by the Corporation or any Subsidiary of the Corporation of beneficial ownership of any stock of the Corporation or the subsidiary to that Interested Person (other than solely by reason of (a) any exercise, exchange or conversion of securities exercisable or exchangeable for or convertible into such stock, which securities were beneficially owned by that Interested Person or authorized by the Company to be issued to that Interested Person either (1) as of April 1, 1993, or (2) prior to the time that person became an Interested Person, (b) any dividend, distribution, exchange or conversion of securities which does not result in an increase in the proportionate share beneficially owned by that Interested Person of the stock of any class or series or of the voting stock of the Corporation or that subsidiary, (c) any issuance of shares of stock by the Corporation or any subsidiary of the Corporation to any dealers or distributors, executives, managers or employees of the Company and/or any subsidiary of the Corporation, or any plan or program for their benefit or in which they are participants, (d) any issuance of shares of stock to an Interested Person acting as an underwriter, in connection with an underwritten public offering of stock, (e) any issuance or transfer of shares of any class or series of stock, in one or a series of related transactions, involving an Interested Person, which results in such Interested Person acquiring the beneficial ownership of no more than an additional 5% of the outstanding shares of that class or series on a fully-diluted basis, or (f) any issuance by the Corporation or any subsidiary of the Corporation of any shares of stock that are not shares of stock generally entitled to vote); or (iv) any transaction involving the Corporation or a subsidiary of the Corporation which has the effect of increasing the proportionate share beneficially owned by an Interested Person of the stock of any class or series or the voting stock, or the securities exercisable or exchangeable for or convertible into the stock of any class or series or the voting stock, of the Corporation or any subsidiary thereof (other than solely by reason of (a) transactions excluded from Business Combinations under clause (iii)(a) through (f) above, or (b) as a result of immaterial changes due to fractional share adjustments or as a result of purchase or redemption of stock not caused by the Interested Person or any of its affiliates or associates). A Business Combination shall be deemed to be a "Business Combination with an Interested Person" if, in the case of a Business Combination described in clause (i) or (ii) of this subparagraph, it is a transaction with an Interested Person or any of its affiliates or associates or a transaction with another person which is caused by an Interested Person or any of its affiliates or associates or if it is a transaction described in clause (iii) or (iv) of this subparagraph.

A person shall be deemed to be the "beneficial owner" of shares of stock of the Corporation (i) which that person or any of its affiliates and associates beneficially own, directly or indirectly, whether of record or not; (ii) which that person or any of its affiliates or associates has the right to acquire pursuant to any agreement, upon the exercise of conversion rights, warrants or options, or otherwise; (iii) which that person or any of its affiliates or associates has the right to sell or vote pursuant to any agreement; or (iv) which are beneficially owned, directly or indirectly, by any other person with whom such person or any of its affiliates or associates has any agreement, arrangement or understanding for the purposes of acquiring, holding, voting or disposing of securities of the Corporation.

A "Continuing Director" means any member of the Board of Directors of the Corporation, while such person is a member of the Board of Directors, who was (a) a member of (or nominated to be a member of) the Board of Directors on April 1, 1993 or (b) was a member of the Board of Directors prior to the time that the Interested Person became an Interested Person, and any successor of a Continuing Director while such successor is a member of the Board of Directors, who is recommended or elected to succeed the Continuing Director by a majority of Continuing Directors.

A director of the Corporation shall be a "Disinterested Director" with respect to an Interested Person if such director is a person who (i) is not and never has been an officer or director of such Interested Person or of any affiliate or associate of such Interested Person and is not and has not been for the past five years an employee of such Interested Person or of any affiliate or associate of such Interested Person; (ii) does not beneficially own, directly or indirectly, as much or more than the lesser of 1 percent or 10,000 shares of any class of equity securities of such Interested Person or of any affiliate or associate of such Interested Person; (iii) is not the settlor of any trust, and does not serve as the trustee, executor or in a similar capacity for any trust or estate, which beneficially owns, directly or indirectly, as much or more than the lesser of 1 percent or 10,000 shares of any class of equity securities of such Interested Person or of any affiliate or associate of such Interested Person; (iv) has not and does not provide services, and is not a partner, officer or stockholder of any firm or business which provides or has provided services, for such Interested Person or for any affiliate or associate of such Interested Person, for which compensation was received in an aggregate amount greater than \$10,000 in any of the past three years; (v) does not have the same residence as any person who could not be a Disinterested Director because of any of the provisions of clauses (i), (ii), (iii) or (iv) above; (vi) is not the spouse, brother, sister, son, daughter, father or mother of any person who could not be a Disinterested Director because of any of the provisions of clauses (i), (ii), (iii) or (iv) above; and (vii) is not otherwise by reason of past, present or anticipated circumstances unable to act solely in the interests of the Corporation with respect to the Business Combination, provided that no director, officer or employee of the Corporation shall be disqualified from being a Disinterested Director solely by reason of being a director, officer or employee of the Corporation.

An "Interested Person" is any person who, as of the record date for the determination of stockholders entitled to notice of a proposed Business Combination and to vote thereon or consent thereto, or as of the date of any such vote or consent, or immediately prior to the consummation of the Business Combination, beneficially owns, directly or indirectly, 5 percent or more of the outstanding shares of stock generally entitled to vote.

A "person" is any individual, corporation or other entity.

A "subsidiary" of the Corporation is any corporation 50 percent or more of the voting securities of which are beneficially owned, directly or indirectly, by the Corporation.

Wherever used in this Certificate of Incorporation, "shares of stock generally entitled to vote" shall mean the total number of outstanding shares of stock of the Corporation that are generally entitled to vote in elections of directors, and unless, otherwise expressly provided in this Certificate of Incorporation, does not include shares of stock of the Corporation not entitled to vote only under special circumstances, such as, for example, Preferred Stock entitled to special director or other voting rights upon the occurrence of defaults or other events or circumstances. Solely for the purpose of determining whether, pursuant to this ARTICLE FIFTH, a person is the beneficial owner of 5 percent or more of the outstanding shares of stock generally entitled to vote, the outstanding stock of the Corporation shall be deemed to include shares that are not outstanding but are deemed owned by that person pursuant to the provisions of clause (ii) of the definition of "beneficial owner" but shall not include any other shares which are not outstanding. Treasury shares shall not for any purpose be considered outstanding stock of the Corporation.

## B. REQUIREMENTS

In addition to any approval of the Board of Directors or stockholders, and satisfaction of any other conditions, required by the laws of the State of Delaware or any other provision of this Certificate of Incorporation in effect at the time of the adoption or authorization of a Business Combination, it shall be required for the adoption or authorization of a Business Combination with an Interested Person that the conditions set forth in each of the following paragraphs 1, 2 and 3 be fulfilled:

1. Disinterested Directors. The Business Combination shall have been approved by a majority of directors who are Continuing Directors and are, with respect to such Interested Person, Disinterested Directors; and
2. Proxy Statement. A proxy statement in accordance with the requirements of the Securities Exchange Act of 1934, as amended shall be mailed to the stockholders of the Corporation for the purpose of soliciting stockholder approval of the Business Combination; and
3. Stockholder Vote. The Business Combination shall be approved by the affirmative vote of the holders of at least 66 2/3 percent of those of the outstanding shares of stock generally entitled to vote which are not beneficially owned by such Interested Person.

A Business Combination that is not subject to the provisions of this ARTICLE FIFTH, or is not with an Interested Person, shall be governed by the other relevant provisions of this Certificate of Incorporation and the laws of the State of Delaware in effect at the time of that Business Combination.

A Business Combination with an Interested Person which was an Interested Person on April 1, 1993 may, at the sole and absolute discretion of the Board of Directors, be exempted from the provisions of this ARTICLE FIFTH if all of the members of the Board of Directors (and not only those present at a meeting) shall approve in writing such Business Combination. A Business Combination with any other Interested Person may, at the sole and absolute discretion of the Board of Directors, be exempted from the provisions of this ARTICLE FIFTH if all of the members of the Board of Directors (and not only those present at a meeting) shall approve in writing such Business Combination at a time prior to the time such Interested Person became an Interested Person.

SIXTH: The business and affairs of the Corporation shall be managed by or under the direction of a Board of Directors consisting of not more than nine directors, the exact number of members to be fixed from time to time by resolution of the Board of Directors, except as may be provided by the resolution or resolutions adopted by the Board of Directors in respect of Preferred Stock adopted pursuant to ARTICLE FOURTH hereto.

#### A. CLASSIFIED DIRECTORS

The directors (subject to the last paragraph of this Article Sixth) shall be divided into three classes, designated Class I, Class II and Class III. Each class shall consist, as nearly as may be possible, of one-third of the total number of directors constituting the entire Board of Directors. Each director shall serve for a term ending on the date of the third annual meeting of stockholders next following the annual meeting at which such director was elected, provided that directors initially designated as Class I directors shall serve for a term ending on the date of the 1996 annual meeting, directors initially designated as Class II directors shall serve for a term ending on the 1995 annual meeting, and directors initially designated as Class III directors shall serve for a term ending on the date of the 1994 annual meeting. Notwithstanding the foregoing, each director shall hold office until such director's successor shall have been duly elected and qualified or until such director's earlier death, resignation or removal. In the event of any change in the number of directors, the Board of Directors shall apportion any newly created directorships among, or reduce the number of directorships in, such class or classes as shall equalize, as nearly as possible, the number of directors in each class. In no event will a decrease in the number of directors shorten the term of any incumbent director. The names and mailing addresses of the persons who are to serve initially as directors of each Class are:

##### Class I

M. Farooq Kathwari  
John K. Castle  
Horace G. McDonnell

##### Class II

Clinton A. Clark  
Kristin Gamble  
Edward H. Meyer

##### Class III

David H. Chow  
Keith Sanders  
William W. Sprague

#### B. DIRECTORS

1. No Written Ballot. Election of directors need not be by written ballot unless the bylaws of the Corporation so provide.
2. Vacancies. Vacancies on the Board of Directors resulting from death, resignation, removal or otherwise and newly created directorships resulting from any increase in the number of directors may be filled solely by a majority of the directors then in office (although less than a quorum) or by the sole remaining director, and each director so elected shall hold office for a term that shall coincide with the term of the Class to which such director shall have been elected.

3. Removal. No director may be removed from office by the stockholders except for cause with the affirmative vote of the holders of not less than a majority of the outstanding shares of stock generally entitled to vote.

4. Preferred Stock Directors. Notwithstanding the foregoing, whenever the holders of one or more classes or series of Preferred Stock shall have the right, voting separately as a class or series, to elect directors, the election, term of office, filling of vacancies, removal and other features of such directorships shall be governed by the terms of the resolution or resolutions adopted by the Board of Directors pursuant to ARTICLE FOURTH applicable thereto, and each director so elected shall not be subject to the provisions of this ARTICLE SIXTH unless otherwise provided therein.

SEVENTH: Subject to Article Thirteenth, The Board of Directors shall have the power to adopt, amend or repeal the By-laws of the Corporation.

EIGHTH: Any action required or permitted to be taken at any annual or special meeting of stockholders may be taken only upon the vote of stockholders at an annual or special meeting duly noticed and called in accordance with the Delaware Law, as amended from time to time, and may not be taken by written consent of stockholders without a meeting, except with regard to election, removal and filling of vacancies of directors by holders of Preferred Stock, voting separately, as and if so provided by the terms of the resolution or resolutions adopted by the Board of Directors pursuant to Article Fourth applicable thereto. At all meetings of stockholders, each stockholder shall be entitled to vote, in person or by proxy, the shares owned by such stockholders of record on the record date for the meeting. When a quorum is present or represented at any meeting, the vote of the holders of a majority of those of the outstanding shares of stock generally entitled to vote and represented, in person or proxy, at the meeting on any matter, question or proposal properly brought before such meeting shall decide such question, unless the question is one upon which, by express provision of law, this Certificate of Incorporation or the By-Laws, a different vote is required, in which case such express provision shall govern and control the decision of such question.

NINTH: Meetings of the stockholders shall only be called by the Secretary of the Corporation upon written request signed by either (a) stockholders holding at least 20% of those of the outstanding shares of stock generally entitled to vote or (b) by a majority of the Board of Directors, or (c) the Chairman of the Board of Directors, or (d) the President of the Corporation, and may not be called by any other person. Notwithstanding the foregoing, whenever holders of one or more classes or series of Preferred Stock shall have the right, voting separately as a class or series, to elect directors, such holders may call, pursuant to the terms of the resolution or resolutions adopted by the Board of Directors pursuant to ARTICLE FOURTH hereto, special meetings of holders of such Preferred Stock. Any call for a special meeting of the stockholders must specify the matters to be acted upon at such meeting; only those matters set forth in such notice may be considered or acted upon at the meeting, unless otherwise provided by law.

TENTH:

1. Limits on Director Liability. A director of the Corporation shall not be personally liable to the Corporation or any of its stockholders for monetary damages for breach of fiduciary duty as a director to the fullest extent now or hereafter permitted by Delaware Law.

2. Indemnification. Each person (and the heirs, executors or administrators of such person) who was or is a party or is threatened to be made a party to, or is involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, shall be indemnified and held harmless by the Corporation to the fullest extent now or hereafter permitted by Delaware Law. The right to indemnification and the right to the advancement to expenses by the Corporation conferred in this ARTICLE TENTH shall also include the right to be paid by the Corporation the expenses incurred in connection with any such proceeding in advance of its final disposition to the fullest extent now or hereafter authorized by Delaware Law. The rights to indemnification and to advancement of expenses conferred in this ARTICLE TENTH shall be contract rights.

3. Additional Indemnification. The Corporation may, by action of its Board of Directors, provide indemnification to such of the directors, officers, employees and agents of the Corporation to such extent and to such effect as the Board of Directors shall determine to be appropriate and authorized by Delaware Law.

4. Insurance. The Corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss incurred by such person in any such capacity or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under Delaware Law.

5. Other Rights. The rights and authority conferred in this ARTICLE TENTH shall not be exclusive of any other right which any person may otherwise have or hereafter acquire.

6. Effect of Amendments. Neither the amendment, change, alteration nor repeal of this ARTICLE TENTH, nor the adoption of any provision of this Certificate of Incorporation or the by-laws of the Corporation, nor, to the fullest extent permitted by Delaware Law, any modification of law, shall eliminate or reduce the effect of this ARTICLE TENTH or the rights or any protections afforded under this ARTICLE TENTH in respect of any acts or omissions occurring prior to such amendment, repeal, adoption or modification.

ELEVENTH: In addition to any other considerations which the Board of Directors may lawfully take into account, in determining whether to take or to refrain from taking corporate action on any matter, including any Business Combination or proposing any matter to the stockholders of the Corporation, the Board of Directors may take into account the long-term as well as short-term interests of the Corporation and its stockholders (including the possibility that these interests may be best served by the continued independence of the Corporation), dealers, customers, managers, employees, suppliers and other constituencies of the Corporation and its subsidiaries, including the effect upon communities in which the Corporation and its subsidiaries do business.

TWELFTH: The Corporation will be subject to Section 203 of the Delaware Law.

THIRTEENTH: The Corporation reserves the right to amend this Certificate of Incorporation in any manner permitted by the Delaware Law and all rights and powers conferred upon stockholders, directors and officers herein are granted subject to this reservation. Notwithstanding the foregoing, the provisions set forth in ARTICLES FIFTH, SIXTH, TENTH, ELEVENTH and TWELFTH and this ARTICLE THIRTEENTH of this Certificate of Incorporation, and Articles II, III and V of the By-Laws of the Corporation, may not be repealed or amended in any respect, and no other provision may be adopted, amended or repealed which would have the effect of modifying or permitting the circumvention of the provisions set forth in ARTICLES FIFTH, SIXTH, TENTH, ELEVENTH and TWELFTH and this ARTICLE THIRTEENTH of this Certificate of Incorporation, and Articles II, III and V of the By-Laws of the Corporation, unless such action is approved by the affirmative vote of the holders of not less than 66 2/3 percent of those of the outstanding shares of stock, generally entitled to vote (and, in the case of any such repeal or amendment of or in respect of ARTICLE FIFTH proposed by or on behalf of any Interested Person in respect of any Business Combination with or involving such Interested Person, of not less than 66 2/3 percent of those of the outstanding shares of stock generally entitled to vote, excluding any shares beneficially owned by such Interested Person).

IN WITNESS WHEREOF, said Ethan Allen Interiors Inc. has caused this certificate to be signed by M. Farooq Kathwari, its Chairman of the Board of Directors, President and Chief Executive Officer and attested by Sharon Blinkoff, its Secretary, this 23rd day of March, 1993.

By: /s/ M. Farooq Kathwari  
M. Farooq Kathwari, Chairman  
of the Board of Directors,  
President and Chief Executive Officer

ATTEST:

By: /s/ Sharon Blinkoff  
Sharon Blinkoff, Secretary







**FOURTH  
CERTIFICATE OF AMENDMENT  
OF THE  
RESTATED CERTIFICATE OF INCORPORATION  
OF  
ETHAN ALLEN INTERIORS INC.**

The undersigned, being the Chairman, President and Chief Executive Officer of Ethan Allen Interiors Inc. (the "Corporation"), pursuant to Section 242 of the General Corporation Law of the State of Delaware, do hereby certify that:

**FIRST:** The Board of Directors of the Corporation has duly adopted, subject to approval by the Corporation's stockholders, resolutions to further amend Article SIXTH of the Restated Certificate of Incorporation of the Corporation to declassify the Board of Directors, remove the class designations for each of the director's terms and institute annual voting for all directors, who will serve a one year term (the "Declassification Amendment"). The Board of Directors of the Corporation duly adopted the Declassification Amendment on October 15, 2013 and submitted it to the Corporation's stockholders for consideration at the Corporation's Annual Meeting of Stockholders held on December 4, 2013 (the "2013 Annual Meeting"). The resolution setting forth the Declassification Amendment is as follows:

**RESOLVED,** that the Amended and Restated Certificate of Incorporation of the Corporation shall be further amended by deleting the current Article SIXTH thereof in its entirety and substituting in lieu thereof the following:

"SIXTH:

1. *Directors.* The business and affairs of the Corporation shall be managed by or under the direction of a Board of Directors consisting of not more than nine directors, the exact number of members to be fixed from time to time by resolution of the Board of Directors, except as may be provided by the resolution or resolutions adopted by the Board of Directors in respect of Preferred Stock adopted pursuant to Article FOURTH hereof. Beginning with the first annual meeting of stockholders held after the date of this amendment, the entire Board of Directors shall be elected annually at each annual meeting of stockholders for a one year term expiring at the next succeeding annual meeting of stockholders. The directors shall hold office until their respective successors are elected and shall qualify, subject, however, to prior death, resignation or removal from office.

2. *No Written Ballot.* Election of directors need not be by written ballot unless the bylaws of the Corporation so provide.

3. *Vacancies.* Vacancies on the Board of Directors resulting from death, resignation, removal or otherwise and newly created directorships resulting from any increase in the number of directors may be filled solely by a majority of the directors then in office, even if less than a quorum, or by the sole remaining director.

4. *Removal.* No director may be removed from office by the stockholders except for cause with the affirmative vote of the holders of not less than a majority of the outstanding shares of stock generally entitled to vote.

5. *Preferred Stock Directors.* Notwithstanding the foregoing, whenever the holders of one or more classes or series of Preferred Stock shall have the right, voting separately as a class or series, to elect directors, the election, term of office, filling of vacancies, removal and other features of such directorships shall be governed by the terms of the resolution or resolutions adopted by the Board of Directors pursuant to ARTICLE FOURTH applicable thereto, and each director so elected shall not be subject to the provisions of this ARTICLE SIXTH unless otherwise provided therein."

**SECOND:** At the 2013 Annual Meeting, duly called and held upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware, at least the requisite number of shares required to vote in favor of adoption in order to adopt the Declassification Amendment were voted in favor of adoption of the Declassification Amendment.



**FIFTH  
CERTIFICATE OF AMENDMENT  
OF THE  
AMENDED AND RESTATED CERTIFICATE OF INCORPORATION  
OF  
ETHAN ALLEN INTERIORS INC.**

The undersigned, being the Chairman, President and Chief Executive Officer of Ethan Allen Interiors Inc. (the "Corporation"), pursuant to Section 242 of the General Corporation Law of the State of Delaware, do hereby certify that:

**FIRST:** The Board of Directors of the Corporation has adopted, subject to approval by the Corporation's stockholders, a resolution to amend the Amended and Restated Certificate of Incorporation of the Corporation to delete Article FIFTH in its entirety (the "Amendment"). The resolution to delete Article FIFTH in its entirety is as follows:

**RESOLVED**, that the Amended and Restated Certificate of Incorporation of the Corporation shall be further amended by deleting Article FIFTH thereof in its entirety and substituting in lieu thereof the following:

"FIFTH: Reserved."

**SECOND:** At the 2015 Annual Meeting of Stockholders held on November 24, 2015, which was duly called and held upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware, at least the requisite number of shares required to vote in favor of the Amendment were voted in favor of the Amendment.

**THIRD:** The Amendment has been duly adopted in accordance with Section 242 of the General Corporation Law of the State of Delaware and shall become effective upon the filing of this Fifth Certificate of Amendment of the Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware.

**IN WITNESS WHEREOF**, the Corporation has caused this Fifth Certificate of Amendment of the Amended and Restated Certificate of Incorporation to be signed this 11th day of December, 2015.

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

## AMENDMENT NO. 3

Dated as of January 22, 2016

to

## AMENDED AND RESTATED CREDIT AGREEMENT

Dated as of October 21, 2014

THIS AMENDMENT NO. 3 ("Amendment") is made as of January 22, 2016 by and among Ethan Allen Global, Inc. (the "Borrower"), Ethan Allen Interiors Inc. ("Holdings"), the other Loan Parties signatory hereto, 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 Amended and Restated Credit Agreement dated as of October 21, 2014 by and among the Borrower, Holdings, the other Loan Parties party thereto, the Lenders and the Administrative Agent (as amended and 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; and

WHEREAS, the Lenders party hereto and the Administrative Agent have agreed to amend the Credit Agreement 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. As of the date of satisfaction of the conditions precedent set forth in Section 2 below, the Credit Agreement is hereby amended as follows, which amendments shall be deemed to have taken effect as of December 30, 2015:

(a) The definition of "Financial Covenant Exemption Period" set forth in Section 1.01 of the Credit Agreement is hereby restated in its entirety to read as follows:

*"Financial Covenant Exemption Period" means the period (a) commencing on any date following the Term Loan Funding Date on which the aggregate outstanding principal amount of the Term Loans is less than \$17,500,000 and (b) ending on the first date thereafter, if any, on which the average daily Availability during the immediately preceding 30 calendar days is less than 15% of the Aggregate Revolving Commitment.*

(b) The definition of "Fixed Charges" set forth in Section 1.01 of the Credit Agreement is hereby restated in its entirety to read as follows:

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*“Fixed Charges” means, with reference to any period, without duplication, cash Interest Expense, plus cash Rentals, plus prepayments and scheduled principal payments on Indebtedness made during such period, plus expense for taxes paid in cash, plus all Restricted Payments paid in cash (including, without limitation and for the avoidance of doubt, all cash payments on account of share buybacks or repurchases), plus Capital Lease Obligation payments, plus cash contributions to any Plan, all calculated for Holdings and its Subsidiaries on a consolidated basis.*

2. Conditions of Effectiveness. The effectiveness of this Amendment is subject to the condition precedent that the Administrative Agent shall have received counterparts of this Amendment duly executed by the Borrower, Holdings, the other Loan Parties party hereto, the Lenders and the Administrative Agent.

3. Representations and Warranties of the Loan Parties. Each Loan Party 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 the Loan Parties 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, each Loan Document 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, the Loan Documents or any other documents, instruments and agreements executed and/or delivered in connection therewith.

5. Consent and Reaffirmation. Without in any way establishing a course of dealing by the Administrative Agent or any Lender, each of the undersigned Loan Parties consents to the Amendment and reaffirms the terms and conditions of the Credit Agreement, the Security Agreement and any other Loan Document executed by it (and any and all Liens on the Collateral granted thereunder to the Administrative Agent for itself and the Secured Parties) and acknowledges and agrees that the Credit Agreement, the Security Agreement 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.

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

7. 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.

8 . 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]



ETHAN ALLEN REALTY LLC

By Ethan Allen Operations, Inc., its Sole Member

By:  /s/ M. Farooq Kathwari

Name:

Title: President, Chairman and CEO

ETHAN ALLEN RETAIL, INC.

By:  /s/ M. Farooq Kathwari

Name:

Title: President, Chairman and CEO

Signature Page to Amendment No. 3  
Ethan Allen Global, Inc.  
Amended and Restated Credit Agreement dated as of October 21, 2014

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

By:  /s/ Donna DiForio  
Name: Donna DiForio  
Title: Authorized Officer

Signature Page to Amendment No. 3  
Ethan Allen Global, Inc.  
Amended and Restated Credit Agreement dated as of October 21, 2014

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CAPITAL ONE, NATIONAL ASSOCIATION,  
as a Lender

By: /s/ Charles J. Margiotti III

Charles J. Margiotti III  
Senior Vice President

Signature Page to Amendment No. 3  
Ethan Allen Global, Inc.  
Amended and Restated Credit Agreement dated as of October 21, 2014

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

I, M. Farooq Kathwari, certify that:

I have reviewed this Quarterly Report on Form 10-Q of Ethan Allen Interiors Inc. ;

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;

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;

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

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

January 27, 2016

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

I, Corey Whitely, certify that:

I have reviewed this Quarterly Report on Form 10-Q of Ethan Allen Interiors Inc. ;

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;

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;

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

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/ Corey Whitely  
(Corey Whitely)

Executive Vice President, Administration,  
Chief Financial Officer and Treasurer

January 27, 2016

SECTION 1350 CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, M. Farooq Kathwari, hereby certify that the December 31, 2015 Quarterly Report on Form 10-Q as filed by Ethan Allen Interiors Inc. (the "Company"), which contains the Company's financial statements, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and that information contained in such Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

Chairman, President and  
Chief Executive Officer

January 27, 2016

SECTION 1350 CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Corey Whitely, hereby certify that the December 31, 2015 Quarterly Report on Form 10-Q as filed by Ethan Allen Interiors Inc. (the "Company"), which contains the Company's financial statements, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and that information contained in such Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Corey Whitely  
(Corey Whitely)

Executive Vice President Administration,  
Chief Financial Officer and Treasurer

January 27, 2016