

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

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

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

For the fiscal year ended JUNE 30, 2002

or

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

Commission file Number 1-11692

ETHAN ALLEN INTERIORS INC.

(Exact name of registrant as specified in its charter)

DELAWARE

06-1275288

(State or other jurisdiction of
incorporation or organization)

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

ETHAN ALLEN DRIVE, DANBURY, CT

06811

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code

(203) 743-8000

Securities registered pursuant to Section 12(b) of the Act: NONE

Title of Each Class

Common Stock, \$.01 par value

Name of Each Exchange
on Which Registered

New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act:
NONE

(Title of class)

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 if disclosure of delinquent filers pursuant to Item 405
of Regulation S-K (229.405 of this chapter) is not contained herein, and will
not be contained, to the best of Registrant's knowledge, in definitive proxy or
information statements incorporated by reference in Part III of this Form 10-K
or any amendment to this Form 10-K.

The aggregate market value of Common Stock, par value \$.01 per share held by
non-affiliates (based upon the closing sale price on the New York Stock
Exchange) on August 29, 2002 was approximately \$1,302,613,482. As of August 29,
2002, there were 37,866,671 shares of Common Stock, par value \$.01 outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: The definitive Proxy Statement for the 2002
Annual Shareholders Meeting is incorporated by reference into Part III hereof.

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PART I

ITEM 1. BUSINESS

BACKGROUND

Ethan Allen Interiors Inc. (together with its directly- and indirectly-owned subsidiaries, "Ethan Allen" or the "Company") is a leading manufacturer and retailer of quality home furnishings, offering a full range of furniture products and home accessories. Incorporated in Delaware in 1989, Ethan Allen designs, manufactures and markets its own brand of furniture and home accent items through the country's largest network of home furnishing retail stores. The Company was founded in 1932 and has sold products under the Ethan Allen brand name since 1937.

PRODUCTS

Ethan Allen markets three main product lines: (1) case goods (wood furnishings), consisting primarily of bedroom and dining room furniture, wall units and tables; (2) upholstered products, consisting primarily of sofas, loveseats, chairs, and recliners; and (3) home accessories and other, including carpeting and area rugs, lighting, clocks, wall decor, bedding ensembles, draperies, decorative accessories and home and garden furnishings. The following table shows the approximate percentage of wholesale sales of home furnishing products for each of these product lines during the three most recent fiscal years:

	2002	2001	2000
Case Goods	56%	56%	56%
Upholstered Products	31	30	29
Home Accessories and Other	13	14	15
	100%	100%	100%

Ethan Allen's product strategy has been to position its brand as a 'preferred' brand with good quality and value. The Company's focus has been on expanding its reach to a broader consumer base through a larger selection of product lines at more attractive price points. During 2002, the Company introduced the Townhouse collection. Townhouse is Ethan Allen's first collection completely sourced off-shore and is reflective of the Company's continuing efforts to offer well-valued, stylish home furnishings.

Management believes that the two most important style categories in home furnishings are the 'Classic' and the 'Casual' product lifestyles. Each home furnishing collection includes case goods, upholstered products and home accessories and each is styled with its own distinct design characteristics. Home accessories play an important role in Ethan Allen's marketing program as this enables the Company to provide one-stop shopping to the consumer by offering a complete home furnishing collection. Ethan Allen's store interiors are designed for the display of these categories in complete room settings, which utilize the related collections to project the category lifestyle.

Ethan Allen continuously monitors consumer demand through marketing research and communication with its dealers and store design consultants who provide valuable input on consumer tastes and needs. As a result, the Company is able to react quickly to changing consumer tastes having added or revised ten major home furnishing collections and discontinuing six home furnishing collections in the past five years. The Company also refines and enhances its product lines by adding and redesigning pieces within each collection.

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The following is a summary of Ethan Allen's major home furnishing collections that have been introduced at the wholesale level and which are currently available:

<TABLE>
<CAPTION>

CALENDAR	PRINCIPAL	HOME FURNISHING	PRINCIPAL
YEAR OF	STYLE		WOOD TYPE
CATEGORY	CHARACTERISTICS	COLLECTIONS	
INTRODUCTION			
-----	-----	-----	-----
<S>	<C>	<C>	<C>
Classic 1965	An opulent style, which includes English 18th Century and 19th Century Neo-Classic styling.	Georgian Court 18th Century Mahogany Collectors Classics	Cherry Mahogany Various
Various 1992		Legacy British Classics	Maple Maple
1995		Country French	Birch
1998		Avenue	Cherry
1998		Modular Home Office	Cherry
2000		Townhouse	Various
2001			
Casual 1991	This style is based on classic contemporary design elements.	American Impressions Country Crossings Country Colors EA Elements Horizons	Cherry Maple Maple Maple Ash

BUSINESS SEGMENTS

The Company's operations are classified into two business segments: wholesale and retail. The wholesale segment is principally involved in the manufacture, sale and distribution of home furnishing products to a network of independently-owned and Ethan Allen-owned ("Company-owned") stores. The retail segment sells home furnishing products through a network of Company-owned stores to consumers.

WHOLESALE:

The wholesale segment is engaged in the design, manufacture, domestic and off-shore sourcing, and sale of case goods (wood furniture), upholstery, and home accent items. These products are sold from the wholesale segment to the Company's retail network, comprised of independent and Company-owned retail stores. Sales of case good items include, but are not limited to, beds, dressers, armoires, night tables, dining room chairs and tables, buffets, sideboards, coffee tables, entertainment units, and home offices. Sales of upholstery home furnishing items include sleepers, recliners, chairs, sofas, loveseats, cut fabrics and leather. Skilled craftsmen cut and sew custom-designed upholstery items having a variety of frame and fabric options. Home accent items include wall decor, lighting, clocks, wood accents, bedspreads, decorative accessories, area rugs, and bedding.

THE WHOLESALE SEGMENT. For fiscal years 2002, 2001 and 2000, the wholesale segment had net sales of \$660.8 million, \$705.6 million, and \$691.1 million, respectively. The Company has 17 manufacturing facilities consisting of 10 case goods plants (including 3 sawmill operations), 6 upholstery plants and 1 home accent plant in the United States. The Company also outsources, domestically and off-shore, selected case goods, upholstery, and home accessory items.

During the fourth quarter of fiscal year 2002, the Company announced a consolidation plan to close one manufacturing facility and the rough mill operation at a separate facility. The sites employed approximately 220 employees. This consolidation plan was necessary in order to manufacture case good products more competitively and in the most suitable plants in the United States. The manufacturing facility, located in Randolph, Vermont, ceased operations in June 2002. The rough mill operation, located in Orleans, Vermont, is expected to be closed by the end of the first quarter of fiscal year 2003. Other existing Ethan Allen manufacturing plants will absorb the production from these facilities. Estimated closing costs of \$5.1 million have been recorded as restructuring and

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impairment charges for the year ended June 30, 2002 and relate, primarily, to severance and related payroll and benefit costs and the write-down of long-lived assets. Actual cash expenditures are estimated to be \$2.0 million.

During the fourth quarter of fiscal year 2001, the Company announced a consolidation plan to close three manufacturing facilities employing approximately 350 people. Similar to the charge incurred in the current year, this consolidation plan was undertaken to improve operational efficiencies. The three facilities were located in Island Pond, Vermont; Frewsburg, New York; and Asheville, North Carolina. Estimated closing costs of \$6.9 million have been recorded as restructuring and impairment charges for the year ended June 30, 2001 and relate, primarily, to severance and related payroll and benefit costs and the write-down of long-lived assets. Actual cash expenditures were approximately \$3.3 million.

RETAIL:

Ethan Allen exclusively sells its products through a network of 316 retail stores. As of June 30, 2002, Ethan Allen owned and operated 103 stores and independent dealers owned and operated 213 stores; 193 in North America and 20 abroad. In the past five years, Ethan Allen and its independent dealers have opened 85 new stores, a number of them being relocations. Sales to independent dealers accounted for approximately 48% of total net sales of the Company in fiscal year 2002. The ten largest independent dealers own a total of 39 stores which, based on net orders booked, accounted for approximately 15% of total net sales in fiscal year 2002.

Ethan Allen encourages further expansion of the Company-owned retail business by opening new stores and by acquiring stores from existing independent dealers. In addition, the Company continues to promote the development and growth of its independent dealers. Independent dealers are required to enter into license agreements with the Company authorizing the use of certain Ethan Allen service marks and requiring adherence to certain standards of operation, including the exclusive sale of Ethan Allen products. Additionally, dealers are

required to enter into warranty service agreements. Ethan Allen is not subject to any territorial or exclusive dealer agreements in the United States.

COMPANY RETAIL SEGMENT. For fiscal years 2002, 2001 and 2000, the retail segment had net sales of \$459.6 million, \$419.3 million, and \$372.1 million, respectively. For fiscal year 2002, net sales for the Company's retail segment were 52% of the Company's total net sales. As of June 30, 2002, there were 103 Company-owned stores as compared to 84 at the end of the prior fiscal year. During 2002, the Company acquired 20 stores from independent retailers, sold 1 store to an independent dealer, opened 1 new store, and closed 1 store.

RETAIL STORE CONCEPT AND MARKETING

Ethan Allen's interior and exterior design is dependent on the store's location and size. Ethan Allen stores are located in busy urban settings, suburban strip malls and freestanding destination stores, depending upon the real estate opportunities in a particular market. While stores range in size from approximately 6,000 square feet to 30,000 square feet, the average size of a store is about 15,000 square feet.

Ethan Allen maximizes uniformity of store presentation throughout the retail network through a comprehensive set of operating standards. These operating standards help each store present the same high quality image and offer retail customers consistent levels of product selection and service. A uniform store image was conveyed through Ethan Allen's program to renovate the exterior of its retail stores with similar and consistent exterior facades. As of June 30, 2002, this program was essentially completed for all stores, including Company-owned stores and independent dealers.

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Ethan Allen provides display-planning assistance to all Company-owned stores and independent dealers to support them in updating the interior projection of their stores and to maintain a consistent image across the country. In 1997, the Company developed a new interior design format for its retail stores. This new design format positions Ethan Allen as a specialist in 'Classic' and 'Casual' lifestyles and decorative accessory retailing. The stores' interiors present products in focused vignettes that are easy and relatively inexpensive to update each season. Information displays also educate consumers as they travel throughout the store. To date, 119, or 38%, of all stores have implemented or are currently in the process of implementing this new interior design. Ethan Allen expects to have essentially all of its Company-owned retail stores incorporate the new interior look over the next few years and believes that many of its independent retail stores will also incorporate the new interior design. Additionally, during fiscal year 2001, the Company implemented a major re-merchandising effort called 'Branding the Interior' of the stores. This program refers to the Company's plan to feature the best-selling home accessory items in the most effective display setting within the store.

The retail network is staffed with a sales force of approximately 3,000 trained design consultants and professionals, who assist customers in decorating their homes at no additional charge. Ethan Allen believes this design service provides a competitive advantage over other furniture retailers.

Ethan Allen recognizes the importance of its retail store network to its long-term success. Accordingly, the Company has established strong management teams within Company-owned stores and maintains a close ongoing relationship with independent dealers. The Company also offers services to the Ethan Allen stores in support of their marketing efforts, including coordinated national advertising, merchandising and display programs, and extensive training seminars and educational materials. Ethan Allen believes that the development of design consultants, sales managers, service and delivery personnel and dealers is important for the growth of its business. As a result, Ethan Allen has committed to offer a comprehensive training program that will help to develop retail managers/owners, design consultants and service and delivery personnel to their fullest potential.

ADVERTISING

Ethan Allen has developed a highly coordinated, nationwide advertising and promotional campaign designed to increase consumer awareness of the breadth of the Company's product offerings. Ethan Allen's in-house staff, working with a leading advertising firm, has developed and implemented what the Company believes is the most extensive national television campaign in the home furnishings industry. This campaign is designed to support selected retail sale periods and to increase the flow of traffic into stores during these sale periods. The sale periods run between five and seven weeks throughout the fiscal year.

Ethan Allen's television advertising is aired approximately 26 weeks per year. In addition to its national television campaign, the Company utilizes direct mail, newspaper, and radio advertising. Ethan Allen believes that its

ability to coordinate its advertising efforts for all Ethan Allen stores provides a competitive advantage over other home furnishing manufacturers and retailers.

The Ethan Allen Interiors direct mail magazine, which features the Company's home furnishing collections in lifestyle settings, is one of Ethan Allen's most important marketing tools. Approximately 59 million copies of the magazine, which features sale products, were distributed to consumers during the year. The Company publishes and sells the magazines to its Company-owned and independent dealers who, with demographic information collected through independent market research, are able to target potential consumers.

Ethan Allen's television advertising and direct mail efforts are supported by strong print campaigns in various markets, and in leading home fashion magazines using advertisements and public relations efforts. The Company coordinates significant advertisements in major newspapers in its major markets. The Ethan

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Allen Treasury, a complete catalogue of the Ethan Allen home furnishing collections, which is distributed in the stores, is one of the most comprehensive home furnishing catalogues in the home furnishings industry.

INTERNET

Ethan Allen is located on the worldwide web at WWW.ETHANALLEN.COM. The Company's primary goal for the website is to drive additional business into the retail network through lead generation and information sourcing. Customers may access the Company's website to review home furnishing collections or to purchase selected home accessories. On average, approximately 12,000 daily users logged onto the Ethan Allen website during fiscal year 2002.

The Company has also developed an extranet website which links the retail stores with consumer information captured on-line such as customer requests for design assistance and copies of the Company's catalogue. This medium has become the primary source of communications providing a variety of information to the entire retail network, including a Company-wide daily news flash, downloads of current advertising materials, proto-type store display floor plans and detailed product information.

CUSTOMER SERVICE PROGRAMS

During the past fiscal year, Ethan Allen, in an effort to make shopping more convenient and enjoyable for consumers, introduced two new customer service programs.

GIFT CARD. In January 2002, the Ethan Allen Gift Card program was introduced. Customers can purchase a Gift Card through the Company's website or at any participating retail store.

WEDDING REGISTRY. In April 2002, the Company introduced its Wedding Registry program. The primary objectives of this program are to increase customer traffic in Ethan Allen's network of retail stores (and on-line), capture consumers in the early stage of their lifecycle, capitalize on the growing trend for non-traditional registries and promote the Company's complimentary design service. Ethan Allen believes this program will further strengthen its competitive advantage by enhancing its current compliment of service offerings with a national gift registry.

ETHAN ALLEN CONSUMER CREDIT PROGRAMS

Ethan Allen offers its consumers two financing options: an installment finance plan and a revolving credit plan.

THE INSTALLMENT FINANCE PLAN. The Company currently offers an installment financing plan for consumers called the Simple Finance Plan. Financing offered through this program is granted on a non-recourse basis to the Company. The plan provides credit lines from \$2,000 to \$50,000 with repayment terms of up to seven years and standard (non-promotional) interest rates currently ranging from 7.99% to 9.99% per annum. As of June 30, 2002, total open credit lines approved exceed \$747 million. Consumers may apply for this financing plan at any participating retail store.

THE REVOLVING CREDIT PLAN. The Company also offers financing to consumers under a revolving credit card program which, too, is granted on a non-recourse basis to the Company. This program provides revolving credit lines from \$1,500 to \$25,000 at variable interest rates currently ranging from 21.00% to 23.75% per annum. Consumers may apply for revolving credit at any participating retail store.

MANUFACTURING

Ethan Allen is one of the largest manufacturers of household furniture

in the United States. The Company manufactures and/or assembles approximately 81% of its

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products at 17 manufacturing facilities, including 3 sawmill operations, thereby maintaining control over cost, quality and service to its consumers. The case goods facilities are located close to sources of raw materials and skilled craftsmen, predominantly in the Northeast and Southeast regions of the country. Upholstery facilities are located across the country in order to reduce shipping costs to stores and are located at sites where skilled craftsmanship is available. Management believes that continued investment at its manufacturing facilities, combined with appropriate outsourcing, will accommodate future sales growth.

DISTRIBUTION

Ethan Allen distributes its products primarily through a national network of 6 owned and 2 leased distribution centers strategically located throughout the United States. These distribution centers hold finished products received from Ethan Allen's manufacturing facilities and domestic and offshore vendors for shipment to Ethan Allen's dealers or home delivery service centers. Ethan Allen stocks case goods and accessories to provide for quick delivery of in-stock items and to allow for more efficient production runs.

Approximately 40% of all shipments are made to and from the distribution and home delivery service centers by the Company's fleet of trucks and trailers. The remaining shipments are subcontracted to independent carriers. Approximately 83% of the Company's fleet (trucks and trailers) is leased under two to eight-year leases.

Ethan Allen's policy is to sell its products at the same delivered cost to all stores nationwide, regardless of their shipping point. The adoption of this policy has created credibility by offering product at one suggested national retail price. This policy has also discouraged dealers from carrying significant inventory in their own warehouses. As a result, Ethan Allen obtains accurate information regarding sales to better plan production runs and manage inventory levels.

RAW MATERIALS AND SUPPLIERS

The most important raw materials used by Ethan Allen in furniture manufacturing are lumber, veneers, plywood, particle board, hardware, glue, finishing materials, glass, mirrored glass, laminates and fabrics. The various types of wood used in Ethan Allen's products include cherry, ash, oak, maple, prima vera, mahogany, birch and pine, substantially all of which are purchased domestically.

Fabrics and other raw materials are purchased both domestically and abroad. Ethan Allen has no significant long-term supply contracts, and has experienced no significant problems in supplying its operations. Ethan Allen maintains a number of sources for its raw materials which management believes contribute to its ability to obtain competitive pricing for raw materials. Lumber prices fluctuate over time based on factors such as weather and demand, which, in turn, impact availability. Upward trends in prices could have a short-term impact on margins.

A sufficient inventory of lumber and fabric is usually stocked to maintain adequate levels of production. Management believes that its sources of supply for these materials are sufficient and that it is not dependent on any one supplier.

COMPETITION

The home furnishings industry at the retail level is highly competitive and fragmented. Although Ethan Allen is among the ten largest furniture manufacturers, industry estimates indicate that there are over 1,000 manufacturers of all types of furniture in the United States, some of which produce furniture types not manufactured by Ethan Allen. In addition, the number of foreign manufacturers, many of which have substantially lower production costs, including the cost of labor, has increased significantly in recent years. Certain of these domestic and foreign companies, which compete directly with Ethan Allen, may have greater financial and other resources than the Company.

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Ethan Allen's products are sold primarily through retail stores, all of which exclusively sell the Company's products. Ethan Allen's effort is focused primarily upon obtaining and retaining independent dealers, increasing the volume of such dealer's sales, and expanding the Company-owned retail business by opening new stores, relocating existing stores and, when appropriate, acquiring stores from existing independent dealers. The home furnishings industry competes primarily on the basis of product styling and quality,

personal service, prompt delivery, product availability and price. Ethan Allen believes that it effectively competes on the basis of each of these factors and believes that its store format provides it with a competitive advantage because of the complete home furnishing product selection and service available to the consumer. Further, as the volume of home furnishing imports into the United States continues to increase, the Company will evaluate and consider opportunities to source with foreign manufacturers, as appropriate, in order to remain competitive.

Furniture Today (a leading industry publication) published a survey of America's Top 100 Furniture Stores on May 27, 2002. For the third year in a row, Ethan Allen was the No. 1 single-source store network for home furnishings in the country. During recent years, the furniture industry and several retailers have continued to be challenged by changes in economic conditions. As a result, several competitors of the Company have filed for bankruptcy protection, announced plans to close their retail stores or undertaken efforts to streamline production costs by implementing selective plant shutdowns. Ethan Allen has been able to maintain stability and credibility by managing its growth and balancing this growth with the ability to service its customers.

TRADEMARKS

The Company currently holds numerous trademarks, service marks and design patents for the Ethan Allen name, logos and designs in a broad range of classes for both products and services in the United States and in many foreign countries. The Company has additional applications for registration pending both domestically and abroad. Ethan Allen has registered, or has applications pending, for many of its major collection names as well as certain of its slogans utilized in connection with retail sales and other services. Ethan Allen views its trade and service marks as valuable assets and has an ongoing program to diligently monitor their unauthorized use through appropriate action.

BACKLOG AND NET ORDERS BOOKED

As of June 30, 2002, Ethan Allen had a wholesale backlog of approximately \$47.5 million, compared to a backlog of \$51.9 million as of June 30, 2001. The backlog is anticipated to be serviced in the first quarter of fiscal year 2003. Backlog at any point in time is primarily a result of net orders booked in prior periods, manufacturing schedules and the timing of product shipments. Net orders booked at the wholesale level from all Ethan Allen stores (including all independently-owned and Company-owned stores) for the twelve months ended June 30, 2002 were \$682.1 million as compared to \$689.0 million for the twelve months ended June 30, 2001. Net orders booked in any period are recorded based on wholesale prices and do not reflect the additional retail margins produced by the Company-owned stores.

EMPLOYEES

Ethan Allen has approximately 7,600 employees as of June 30, 2002, 6% of which are represented by unions under collective bargaining agreements. The Company's labor contracts expire at various times in 2005. The Company expects no significant changes in its relations with these unions and believes it has a good relationship with all employees.

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RECENT DEVELOPMENTS

In October 2001, the Company formed a joint venture with MFI Furniture Group Plc. ("MFI") to open a chain of retail stores in the United Kingdom. The initial phase of the agreement, which calls for the two companies to collaborate on the development of a retail store format that will market their respective retail concepts, involves up to five stores with approximately 8,000 to 15,000 square feet in each. The first of these stores, located in the London suburb of Kingston, opened in May 2002 and has been included as a dealer-owned store in compiling the Company's store count as of June 30, 2002.

In July 2002, the Company increased its percentage ownership in the operations of 7 Ethan Allen retail stores (and 1 related service center) located throughout Canada by acquiring the remaining 75% interest in a transaction accounted for as a purchase business combination. The Company had previously held a 25% interest in the operations of these stores which it acquired in July 1997.

In September 2002, the Company acquired the assets of 6 Ethan Allen retail stores (and 1 related service center) located in the greater Chicago area. This transaction was accounted for as a purchase business combination.

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ITEM 2. PROPERTIES

The Company's corporate headquarters, located in Danbury, Connecticut, consists of one building containing 144,000 square feet, situated on approximately 17.5 acres of land, all of which is owned by Ethan Allen. Located adjacent to the corporate headquarters is the Inn at Ethan Allen, a hotel and conference center containing 195 guestrooms. This hotel, owned by a wholly-owned subsidiary of Ethan Allen, is used for Ethan Allen functions and in connection with training programs as well as for accommodations for the general public.

Ethan Allen has 17 manufacturing facilities (including 3 sawmill operations) located in 10 states. All of these facilities are owned, with the exception of a leased upholstery plant in California totaling 141,600 square feet. The Company's 17 facilities consist of 10 case goods manufacturing plants (including 3 sawmill operations), totaling 3,224,200 square feet; 6 upholstery furniture plants, totaling 1,403,300 square feet; and 1 plant involved in the manufacture and assembly of Ethan Allen's home accessory products totaling 295,000 square feet.

In addition, Ethan Allen owns 6 and leases 2 ancillary distribution warehouses, totaling 1,113,500 square feet, and owns 3 and leases 26 retail delivery service centers, totaling 1,337,940 square feet. The Company's manufacturing and distribution facilities are located in North Carolina, Vermont, Pennsylvania, Virginia, New York, Oklahoma, California, New Jersey, Indiana, Maine and Massachusetts. The Company's retail service centers are located throughout the United States and serve to support Ethan Allen's various sales districts.

There are 103 Company-owned retail stores in United States, of which 38 stores are owned and 65 stores are leased.

Ethan Allen's manufacturing facility in Maiden, North Carolina and the Inn at Ethan Allen in Danbury, Connecticut were financed with industrial revenue bonds and the Beecher Falls, Vermont facility was financed in part by the State of Vermont Economic Development Authority. Ethan Allen believes that all of its properties are well maintained and in good condition.

Ethan Allen estimates that its manufacturing division is currently operating at approximately 85% of capacity. Management believes it has additional capacity at many facilities, which it could utilize with minimal additional capital expenditures.

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ITEM 3. LEGAL PROCEEDINGS

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

ENVIRONMENTAL MATTERS

The Company is a potentially responsible party ("PRP") for the cleanup of three active sites currently listed or proposed for inclusion on the National Priorities List ("NPL") under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"). The Company has resolved its liability at one of the sites by completing remedial action activities. With regard to the other two sites, the Company does not anticipate incurring significant cost as it believes that it is not a major contributor based on the very small volume of waste generated by the Company in relation to total volume at the site. However, liability under CERCLA may be joint and several. Additionally, the Company has recently been notified by the State of New York that it may be a PRP in a separate, unrelated matter. As a result, the extent of any adverse effect on the Company's financial condition, results of operations, or cash flows with respect to this matter cannot be reasonably estimated at this time.

Ethan Allen is subject to other federal, state and local environmental protection laws and regulations and is involved from time to time in investigations and proceedings regarding environmental matters. The Company is regulated under several federal, state and local laws and regulations concerning air emissions, water discharges, and management of solid and hazardous wastes. The Company believes that its facilities are in material compliance with all applicable laws and regulations. Regulations issued under the Clean Air Act Amendments of 1990 required the Company to reformulate certain furniture finishes or institute process changes to reduce emissions of volatile organic compounds. These requirements have been implemented via high solids coating technology and alternative formulations. Ethan Allen has implemented a variety of technical and procedural controls, such as reformulating of finishing materials to reduce toxicity, implementation of high velocity low pressure spray

systems, development of inspections/audit teams including coating emissions reductions teams at all finishing factories and storm water protection plans and controls, that have reduced emissions per unit of production. In addition, Ethan Allen is currently reclassifying its waste as part of the factory waste minimization programs, developing environment and safety job hazard analysis programs on the shop floor to reduce emissions and safety risks, and developing an auditing system to control and ensure consistent protocols and procedures are applied. The Company will continue to evaluate the best applicable, cost effective, control technologies for finishing operations and design production methods which will reduce the use of hazardous materials in manufacturing processes.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The following matters were submitted to security holders of the Company during the fourth quarter of fiscal year 2002:

None.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is traded on the New York Stock Exchange under ticker symbol 'ETH'. The following table indicates the high and low stock prices as reported on the New York Stock Exchange and dividends paid by the Company:

	CLOSING MARKET PRICE		DIVIDENDS PAID
	HIGH	LOW	
FISCAL 2002			
Fourth Quarter	\$ 41.80	\$ 34.85	\$ 0.06
Third Quarter	42.75	36.25	0.04
Second Quarter	41.70	27.10	0.04
First Quarter	38.00	26.65	0.04
FISCAL 2001			
Fourth Quarter	\$ 38.01	\$ 32.50	\$ 0.04
Third Quarter	38.80	30.88	0.04
Second Quarter	33.50	24.69	0.04
First Quarter	30.75	24.81	0.04

As of August 29, 2002, there were approximately 429 shareholders of record of the Company's Common Stock.

On August 1, 2002, the Company declared a \$0.06 per common share dividend for all holders of record on October 10, 2002 and a payment date of October 25, 2002. The Company expects to continue to declare quarterly dividends for the foreseeable future.

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ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth summary consolidated financial information of the Company for the years and dates indicated (in thousands, except per share data):

<TABLE>
<CAPTION>

	FISCAL YEARS ENDED JUNE 30,			
	2002	2001	2000	1999
1998				

<S>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:				
Net sales	\$892,288	\$904,133	\$856,171	\$762,233
\$679,321				
Cost of sales	470,975	490,477	455,561	407,234
363,746				
Selling, general and administrative expenses	286,290	280,703	253,029	221,237
195,216				
Restructuring and impairment charge (1)	5,123	6,906	-	-
-	-----	-----	-----	-----

Operating income	129,900	126,047	147,581	133,762
120,359				
Interest and other (income) expense, net	(2,344)	(2,056)	811	1,045
1,829	-----	-----	-----	-----

Income before income tax expense and extraordinary charge	132,244	128,103	146,770	132,717
118,530				
Income tax expense	49,988	48,423	56,200	51,429
46,582	-----	-----	-----	-----

Income before extraordinary charge	82,256	79,680	90,570	81,288
71,948				
Extraordinary charge (net of tax) (802) (2)	-	-	-	-
	-----	-----	-----	-----

Net income	\$ 82,256	\$ 79,680	\$ 90,570	\$ 81,288
\$ 71,146	=====	=====	=====	=====
=====				
PER SHARE DATA: (3)				
Net income per basic share	\$ 2.12	\$ 2.02	\$ 2.25	\$ 1.97
\$ 1.65				
Basic weighted average shares outstanding	38,828	39,390	40,301	41,278
43,050				
Net income per diluted share	\$ 2.06	\$ 1.98	\$ 2.20	\$ 1.92
\$ 1.61				
Diluted weighted average shares outstanding	39,942	40,321	41,198	42,287
44,136				
Cash dividends declared	\$ 0.18	\$ 0.16	\$ 0.16	\$ 0.12
\$ 0.09				
OTHER INFORMATION:				
Depreciation and amortization (4)	\$ 19,314	\$ 20,220	\$ 16,975	\$ 16,344
\$ 15,868				
Capital expenditures, including acquisitions	\$ 73,481	\$ 48,238	\$ 54,696	\$ 47,792
\$ 29,665				
Working capital	\$189,628	\$182,223	\$127,519	\$123,580
\$114,287				
Current ratio	2.47	2.69	2.18	2.43
2.55				
BALANCE SHEET DATA (AT END OF PERIOD):				
Total assets	\$688,755	\$619,118	\$543,571	\$480,622
\$433,123				
Total debt including capital lease obligations	\$ 9,321	\$ 9,487	\$ 17,907	\$ 10,676
\$ 13,375				
Shareholders' equity	\$511,189	\$464,783	\$390,509	\$350,535
\$314,320				
Ratio of debt to equity	1.8	2.0	4.6	3.1
4.3				

Footnotes on following page.
</TABLE>

NOTES TO SELECTED FINANCIAL DATA

- (1) During the fourth quarter of fiscal year 2002, the Company announced a consolidation plan to close one manufacturing facility and the rough mill operation at a separate facility. The sites employed approximately 220 employees. This consolidation plan was necessary in order to manufacture case good products more competitively and in the most suitable plants in the United States. The manufacturing facility, located in Randolph, Vermont, ceased operations in June 2002. The rough mill operation, located in Orleans, Vermont, is expected to be closed by the end of the first quarter of fiscal year 2003. Estimated closing costs of \$5.1 million have been recorded as restructuring and impairment charges for the year ended June 30, 2002 and relate, primarily, to severance and related payroll and benefit costs and the write-down of long-lived assets.

During the fourth quarter of fiscal year 2001, the Company announced its plans to close three manufacturing facilities employing approximately 350 people. Closure of the facilities located in Island Pond, Vermont; Frewsburg, New York; and Asheville, North Carolina, all of which occurred during fiscal year 2002, was necessary in order to improve operational efficiencies. Estimated closing costs of \$6.9 million have been recorded as restructuring and impairment charges for the year ended June 30, 2001 and relate, primarily, to severance and related payroll and benefit costs and the write-down of long-lived assets.

- (2) During fiscal 1998, the Company completed its optional early redemption of all of its \$52.4 million then-outstanding 8-3/4% Senior Notes, due on March 15, 2001, at 101.458% of par value. As a result of the early redemption, an extraordinary charge of \$0.8 million, net of tax benefit, was recorded. The extraordinary charge included the write-off of unamortized deferred financing costs associated with the Senior Notes and the premium related to the early redemption.
- (3) Amounts have been retroactively adjusted to reflect the two-for-one stock split on September 2, 1997 and the three-for-two stock split on May 21, 1999.
- (4) As a result of the Company's adoption of SFAS No. 142, "Goodwill and Other Intangible Assets", amortization of goodwill and intangible assets ceased on July 1, 2001. The amount of amortization related to these assets in 2001, 2000, 1999 and 1998 was \$1.8 million, \$1.8 million, \$1.7 million and \$1.6 million, respectively.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

FORWARD-LOOKING STATEMENTS

Management's discussion and analysis of financial condition and results of operations and other sections of this annual report contain forward-looking statements relating to future results of the Company. Such forward-looking statements are identified by use of forward-looking words such as "anticipates", "believes", "plans", "estimates", "expects", and "intends" or phrases of similar expression. These forward-looking statements are subject to various assumptions, risks and uncertainties, including, but not limited to, changes in political and economic conditions, demand for the Company's products, acceptance of new products, technology developments affecting the Company's products and to those matters discussed in the Company's filings with the Securities and Exchange Commission. Accordingly, actual results could differ materially from those contemplated by the forward-looking statements.

CRITICAL ACCOUNTING POLICIES

The Company's consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America which requires that certain estimates and assumptions be made that affect the amounts and disclosures reported in the those financial statements and the related accompanying notes. Actual results could differ from these

estimates and assumptions. Management uses its best judgment in valuing these estimates and may, as warranted, solicit external advice. Estimates are based on current facts and circumstances, prior experience and other assumptions believed to be reasonable. The following critical accounting policies, some of which are impacted significantly by judgments, assumptions and estimates, affect the Company's consolidated financial statements.

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

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

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

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

INVENTORIES - Inventories (finished goods, work in process and raw materials) are stated at the lower of cost, determined on a first-in, first-out basis, or market. The Company estimates an inventory reserve for excess quantities and obsolete items based on specific identification and historical write-offs, taking into account future demand and market conditions. If actual demand or market conditions in the future are less favorable than those estimated, additional inventory write-downs may be required.

REVENUE RECOGNITION - Revenue is recognized when the risks and rewards of ownership and title to the product have transferred to the buyer. This generally occurs upon the shipment of goods to independent dealers or, in the case of Ethan Allen-owned retail stores, upon delivery to the customer. Recorded sales provide for estimated returns and allowances. The Company permits retail customers to return defective products and incorrect shipments for credit against other purchases. Terms offered by the Company are standard for the industry.

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

OTHER LOSS RESERVES - The Company has a number of other potential loss exposures incurred in the ordinary course of business such as environmental claims, product liability, litigation, restructuring charges, and the recoverability of deferred income tax benefits. Establishing loss reserves for

these matters requires management's estimate and judgment with regard to maximum risk exposure and ultimate liability or realization. As a result, these estimates are often developed with the Company's counsel, or other appropriate advisors, and are based on management's current understanding of the underlying facts and circumstances. Because of uncertainties related to the ultimate outcome of these issues or the possibilities of changes in the underlying facts and circumstances, additional charges related to these issues could be required in the future.

BASIS OF PRESENTATION

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

RESULTS OF OPERATIONS

Ethan Allen's revenues are comprised of wholesale sales to dealer-owned and Company-owned retail stores and retail sales of Company-owned stores. See Note 16 to the Company's Consolidated Financial Statements for the year ended June 30, 2002. The components of consolidated revenues and operating income are as follows (in millions):

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	FISCAL YEARS ENDED JUNE 30,		
	2002	2001	2000
REVENUE:			
Wholesale segment	\$ 660.8	\$ 705.6	\$ 691.1
Retail segment	459.6	419.3	372.1
Elimination of inter-segment sales	(228.1)	(220.8)	(207.0)
Consolidated Revenue	\$ 892.3	\$ 904.1	\$ 856.2
OPERATING INCOME:			
Wholesale segment (1)	\$ 110.1	\$ 100.5	\$ 132.5
Retail segment	23.1	23.1	20.5
Eliminations	(3.3)	2.4	(5.4)
Consolidated Operating Income	\$ 129.9	\$ 126.0	\$ 147.6

(1) The Wholesale segment includes pre-tax restructuring and impairment charges of \$5.1 million and \$6.9 million in fiscal years 2002 and 2001, respectively.

FISCAL 2002 COMPARED TO FISCAL 2001

Consolidated revenue for fiscal year 2002 was \$892.3 million, a decrease of \$11.8 million, or 1.3%, from fiscal year 2001 consolidated revenue of \$904.1 million. The decrease in revenues was the result of a general decline in consumer spending throughout most of the year, partially offset by a selective price increase effective April 2001 and continued expansion of the retail segment.

Total wholesale revenue for fiscal year 2002 was \$660.8 million as compared to \$705.6 million in fiscal year 2001. This represents a decrease of \$44.8 million, or 6.4%, from fiscal year 2001. The decrease in wholesale revenue was due, primarily, to softening demand as a result of a general decline in consumer spending during the last twelve months and, to a lesser extent, one less production day in the current fiscal year as compared to the prior year.

Total retail revenue from Ethan Allen-owned stores for fiscal year 2002 increased by \$40.3 million, or 9.6%, to \$459.6 million from \$419.3 million in the prior year. The increase in retail sales by Ethan Allen-owned stores was comprised of a \$9.5 million (or 2.4%) decrease in comparable store sales, an increase in sales generated by newly opened or acquired stores of \$57.6 million, and a decrease resulting from sold and closed stores, which generated \$7.8 million fewer sales in fiscal year 2002 compared to fiscal year 2001. The number of Ethan Allen-owned stores increased to 103 as of June 30, 2002 as compared to 84 as of June 30, 2001. During the last twelve months, the Company acquired 20 stores from independent dealers, sold 1 to an independent dealer, opened 1 new store, and closed 1 store. Of the stores acquired during fiscal 2002, 6 stores were purchased from Mr. Edward Teplitz, who subsequently joined the Company as Vice President of Finance (see Part II, Item 5 of the Form 10-Q filed on November 15, 2001). In August 2002, Mr. Teplitz was named Chief Financial Officer of the Company.

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

Booked orders for the year ended June 30, 2002 were slightly higher than the same period in the prior year by 2.0%, reflecting further expansion of the Company's retail segment, offset by softening wholesale demand and a general decline in consumer spending. During fiscal 2001, booked orders declined 1.4% from fiscal 2000 levels. Total booked orders include wholesale orders and written orders of Company-owned retail stores.

Gross profit for fiscal year 2002 increased \$7.6 million, or 1.8%, to \$421.3 million from \$413.7 million in fiscal year 2001. The increase in gross profit was primarily attributable to (i) a higher proportionate share of retail sales to total sales (52% in fiscal 2002 compared to 46% in fiscal 2001), (ii) lower manufacturing

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costs resulting from favorable pricing of raw materials, (iii) efficiencies gained as a result of plant shutdowns undertaken in fiscal 2001 and (iv) the impact of a selective price increase effective April 2001. These factors were partially offset by lower wholesale sales volume. Consolidated gross margin increased to 47.2% for the year ended June 30, 2002 from 45.8% in the prior year. The gross margin was positively impacted as a result of the factors identified previously, offset partially by sales volume associated with products sold at lower margins.

The Company recorded pre-tax restructuring and impairment charges of \$5.1 million and \$6.9 million in the fourth quarter of fiscal 2002 and 2001, respectively, relating to the consolidation of certain manufacturing facilities. The 2002 consolidation plan involved the closure of one manufacturing facility as well as the rough mill operation of a separate facility. Closure of these facilities resulted in the elimination of approximately 220 employees; 150 employees effective June 29, 2002, and 70 employees expected to be terminated during the first quarter of fiscal 2003. In 2001, the Company announced the closure of three of its manufacturing facilities and the elimination of approximately 350 employees effective August 6, 2001. The closing costs recorded in both periods consist, primarily, of severance and related payroll and benefit costs and the write-down of long-lived assets.

Including the restructuring and impairment charges of \$5.1 million and \$6.9 million in fiscal 2002 and 2001, respectively, operating expenses increased to \$291.4 million, or 32.7% of net sales, for the year ended June 30, 2002 from \$287.6 million, or 31.8% of net sales, for the year ended June 30, 2001. This increase is primarily attributable to further growth within the retail segment and the higher proportionate share of retail sales to total sales experienced in 2002. The addition of 19 net new Company-owned stores since June 2001 has resulted in higher costs associated with delivery and warehousing, occupancy, advertising, healthcare and design consultant salaries. These increases were partially offset by a decrease in distribution costs resulting from a decline in the volume of wholesale shipments.

Including the restructuring and impairment charges of \$5.1 million and \$6.9 million in fiscal 2002 and 2001, respectively, operating income was \$129.9 million, or 14.6% of net sales, for the year ended June 30, 2002 compared to \$126.0 million, or 13.9% of net sales, for the year ended June 30, 2001. This represents an increase of \$3.9 million, or 3.1%, which is primarily attributable to the higher gross margin noted above, partially offset by increased operating expenses resulting from the continued expansion of the retail segment.

Including the restructuring and impairment charges of \$5.1 million and \$6.9 million in fiscal 2002 and 2001, respectively, total wholesale operating income was \$110.1 million, or 16.7% of wholesale net sales, for the year ended June 30, 2002 compared to \$100.5 million, or 14.2% of wholesale net sales, for the year ended June 30, 2001. Wholesale operating income increased \$9.6 million, or 9.6%, in fiscal year 2002 due, primarily, to (i) lower manufacturing costs resulting from favorable pricing of raw materials, (ii) efficiencies gained from plant shutdowns undertaken in fiscal 2001 and (iii) the impact of a selective price increase effective April 2001, partially offset by lower wholesale sales volume and one less production day in the current fiscal year as compared to the prior year.

Operating income for the retail segment remained relatively unchanged at \$23.1 million, representing 5.0% and 5.5% of net retail sales in fiscal years 2002 and 2001, respectively. The level of retail operating income generated by Company-owned stores is primarily attributable to a 2.4% decline in comparable store sales and higher operating expenses related to the addition of 19 net new stores, offset by improved operational efficiencies, increased sales volume associated with new stores and a selective price increase effective April 2001.

Interest and other miscellaneous income of \$3.0 million in fiscal year

2002 increased \$0.2 million from \$2.8 million in fiscal year 2001 due, primarily, to an increase in interest income associated with the Company's investment portfolio.

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Interest expense, including the amortization of deferred financing costs, decreased \$0.2 million to \$0.6 million in fiscal 2002 compared to \$0.8 million in fiscal 2001 due to a decline in the Company's outstanding borrowings.

Income tax expense of \$50.0 million was recorded for the twelve months ended June 30, 2002 as compared to \$48.4 million for the twelve months ended June 30, 2001. The Company's effective tax rate was 37.8% for both periods.

For fiscal year 2002, the Company recorded net income of \$82.3 million, an increase of 3.3%, compared to \$79.7 million in fiscal year 2001. Earnings per diluted share for fiscal year 2002 amounted to \$2.06, an increase of \$0.08 per diluted share, or 4.0%, from \$1.98 per diluted share in the prior year. Excluding the restructuring and impairment charges recorded in each period, net income for fiscal year 2002 was \$85.4 million (or \$2.14 per diluted share) compared to \$84.0 million (or \$2.08 per diluted share) for fiscal year 2001 representing an increase of \$0.06 per diluted share, or 2.9%.

FISCAL 2001 COMPARED TO FISCAL 2000

Consolidated revenue for fiscal year 2001 of \$904.1 million increased by \$47.9 million, or 5.6%, from fiscal year 2000 consolidated revenue of \$856.2 million. Overall, sales growth resulted from new product offerings, a selective price increase effective February 2000 and growth in the retail segment.

Total wholesale revenue for fiscal year 2001 was \$705.6 million as compared to \$691.1 million in fiscal year 2000. This represents a \$14.5 million, or 2.1%, increase over fiscal year 2000. The increase in wholesale revenue was due to a selective price increase effective February 2000 and sales volume generated from new product introductions at more affordable price points. These increases were partially offset by three fewer production days in the current fiscal year as compared to the prior year.

Total retail revenue from Ethan Allen-owned stores for fiscal year 2001 increased by \$47.2 million, or 12.7%, to \$419.3 million from \$372.1 million in the prior year. The increase in retail sales by Ethan Allen-owned stores was attributable to a 10.0%, or \$34.7 million, increase in comparable store sales, an increase in sales generated by newly opened or acquired stores of \$25.1 million, partially offset by sold and closed stores, which generated \$12.6 million less sales in fiscal year 2001 as compared to fiscal year 2000. The number of Ethan Allen-owned stores increased to 84 as of June 30, 2001 as compared to 82 as of June 30, 2000. The Company acquired 1 store from an independent dealer, sold 4 to independent dealers, relocated 1 store, and opened 5 new stores.

Booked orders for the year ended June 30, 2001 were slightly lower than the same period in the prior year by 1.4%, reflecting slower economic growth. The prior year's increase in booked orders was 16.0%. Total orders include wholesale orders and written business of Company-owned retail stores.

Gross profit for fiscal year 2001 increased \$13.1 million, or 3.3%, to \$413.7 million from \$400.6 million in fiscal year 2000. The \$13.1 million increase in gross profit was mainly due to higher sales volume, a selective price increase effective February 2000 and a higher percentage of retail sales to total sales. These increases were offset by a decline in the gross margin to 45.8% for the year ended June 30, 2001 from 46.8% in the prior year. The gross margin was negatively impacted by changes in production scheduling mainly due to new product introductions and from the sale of more affordably priced products manufactured at lower margins. Gross margins were also negatively impacted by higher costs incurred due to plant expansions, including the start-up of the new case goods manufacturing facility in Dublin, Virginia and from other plant expansions initiated to increase production capacity and improve efficiencies.

The Company recorded a pre-tax restructuring and impairment charge of \$6.9 million in the fourth quarter of fiscal year 2001 relating to the consolidation of three manufacturing facilities in the fourth quarter of fiscal year 2001.

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Including the restructuring and impairment charge of \$6.9 million in 2001, operating expenses increased \$34.6 million to \$287.6 million, or 31.8% of net sales, in fiscal year 2001 from \$253.0 million, or 29.6% of net sales, in fiscal year 2000. This increase is primarily attributable to the expansion of the retail segment and from increased employee benefits, energy and utility costs.

Including the restructuring and impairment charge of \$6.9 million in

2001, operating income was \$126.0 million, or 13.9% of net sales, compared to \$147.6 million, or 17.2% of net sales, in fiscal year 2000. This represents a decrease of \$21.6 million, or 14.6%, primarily attributable to a lower gross margin noted above, higher operating expenses resulting from the growth of the retail segment and an increase in employee benefit, energy and utility costs, partially offset by higher sales volumes and a higher percentage of retail sales to total sales.

Including the restructuring and impairment charge of \$6.9 million in 2001, total wholesale operating income was \$100.5 million, or 14.2% of wholesale net sales, compared to \$132.5 million, or 19.2% of wholesale net sales, in fiscal year 2000. Wholesale operating income decreased \$32.0 million, or 24.2%, in fiscal year 2001. This decrease was attributable to three fewer production days in the twelve month period ending June 30, 2001 and from a lower gross margin noted above.

Operating income for the retail segment increased by \$2.6 million, or 12.7%, to \$23.1 million, or 5.5% of net retail sales, from \$20.5 million, or 5.5% of net retail sales, in fiscal year 2000. The increase in retail operating income by Ethan Allen-owned stores is primarily attributable to increased sales volume and a selective price increase effective February 2000, partially offset by higher operating expenses related to the addition of new stores and higher compensation costs necessary to strengthen the staffing of the retail segment.

Interest and other miscellaneous income of \$2.8 million increased \$2.4 million from \$0.4 million in fiscal year 2000 mainly due to the gain recorded on a real property transaction and from an increase in investment income.

Interest expense, including the amortization of deferred financing costs, for fiscal year 2001 decreased by \$0.5 million to \$0.8 million, due to lower debt balances and lower amortization of deferred financing costs.

Income tax expense of \$48.4 million was recorded for the twelve months ended June 30, 2001 as compared to \$56.2 million for the twelve months ended June 30, 2000. The Company's effective tax rate was 37.8% in fiscal year 2001 and 38.3% in fiscal year 2000. The decline in the effective income tax rate for the year was the result of the implementation of various tax planning strategies.

In fiscal year 2001, the Company recorded net income of \$79.7 million, a decrease of 12.0%, compared to \$90.6 million in fiscal year 2000. Earnings per diluted share of \$1.98 decreased 10.0%, or \$0.22 per diluted share, from \$2.20 per diluted share in the prior year.

FINANCIAL CONDITION AND LIQUIDITY

The Company's principal sources of liquidity are cash flow from operations and borrowing capacity under a revolving credit facility. Net cash provided by operating activities totaled \$125.3 million for fiscal year 2002 as compared to \$87.6 million in fiscal year 2001 and \$104.9 million in fiscal year 2000. The increase in net cash provided by operating activities resulted, principally, from lower inventory levels and an increase in customer deposits offset, partially, by changes in other working capital balances during the twelve months ended June 30, 2002 as compared to the same period in the prior year. The majority of the decrease in inventory levels resulted from temporary plant shutdowns during the last twelve months and reductions made in on-hand raw materials. The increase in customer deposits resulted from retail store acquisitions completed during the year.

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During fiscal year 2002, capital spending, exclusive of acquisitions, totaled \$31.1 million as compared to \$38.5 million and \$42.1 million in fiscal 2001 and 2000, respectively. The current level of capital spending is principally attributable to a decline in manufacturing expansion and technology improvements, partially offset by increased costs associated with new store development and renovation. Capital expenditures in fiscal year 2003, exclusive of acquisitions, are anticipated to be approximately \$35.0 million. In addition, the Company expects to incur expenditures for retail and other acquisitions totaling \$35.0 million during fiscal year 2003. The Company anticipates that cash from operations will be sufficient to fund such capital expenditures and acquisitions.

Net cash used in financing activities totaled \$29.3 million in fiscal year 2002 as compared to \$15.0 million in fiscal year 2001 and \$47.0 million in fiscal year 2000. The increase in net cash used in financing activities during fiscal 2002 is the result of an increase in payments to acquire treasury stock and the absence of borrowing and repayment activity under the Company's revolving credit facility. Total debt outstanding at June 30, 2002 was \$9.3 million. At June 30, 2002 there were no revolving loans outstanding and \$19.5 million of trade and standby letters of credit outstanding under the credit facility. The Company had \$105.5 million available under its revolving credit facility at June 30, 2002.

In June 2002, Standard & Poor's ("S&P") raised its corporate and senior unsecured credit ratings on Ethan Allen to "A-" from "BBB+". S&P cited the Company's solid business position and operating performance, both stemming from a well-known brand name, the effectiveness of its distribution through Ethan Allen galleries, a strong product portfolio, efficient manufacturing and low-cost position, as the primary factors considered in arriving at the rating change.

The Company has been authorized by its Board of Directors to repurchase its common stock from time to time, either directly or through agents, in the open market at prices and on terms satisfactory to the Company. The Company also repurchases shares of common stock from terminated or retiring employee's accounts in the Ethan Allen Retirement Savings Plan and retires shares of unvested restricted stock. All of the Company's common stock repurchases and retirements are recorded as treasury stock and result in a reduction of shareholders' equity. During fiscal years 2002, 2001 and 2000, the Company repurchased and/or retired the following shares of its common stock:

	2002 -----	2001(1) -----	2000 -----
Common shares repurchased	1,059,226	61,006	1,928,350
Cost to repurchase common shares	\$31,865,423	\$1,069,587	\$49,605,555
Average price per share	\$30.08	\$17.53	\$25.72

(1) Includes the repurchase of 28,000 shares at \$.01 per share previously issued under the Company's Restricted Stock Award Plan. Excluding the effect of these repurchases, the average price per share was \$32.40.

The Company funded its purchases through cash from operations and through revolver loan borrowings under its existing credit facility. As of June 30, 2002, the Company had a remaining Board authorization to purchase 1.7 million shares.

As of June 30, 2002, aggregate scheduled maturities of long-term debt for each of the next five fiscal years are \$0.1 million, \$0.1 million, \$4.7 million, \$0.1 million and \$0.1 million, respectively. Management believes that its cash flow from operations, together with its other available sources of liquidity, will be adequate to make all required payments of principal and interest on its debt, to permit anticipated capital expenditures and to fund working capital and other cash requirements. As of June 30, 2002, the Company had working capital of \$189.6 million and a current ratio of 2.47 to 1.

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IMPACT OF INFLATION

The Company does not believe that inflation has had a material impact on its profitability during the last three fiscal years. In the past, the Company has generally been able to increase prices to offset increases in operating costs and effectively manage its working capital.

INCOME TAXES

At June 30, 2002, the Company has approximately \$10.7 million of net operating loss carryovers ("NOL's") for federal income tax purposes. The Recapitalization in 1993 triggered an "ownership change" of the Company, as defined in Section 382 of the Internal Revenue Code of 1986, as amended, resulting in an annual limitation on the utilization of the NOL's by the Company of approximately \$3.9 million.

NEW ACCOUNTING PRONOUNCEMENTS

In October 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While Statement 144 supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", it retains the fundamental provisions of that Statement. In addition, the standard provides guidance on estimating cash flows when performing a recoverability test, requires that a long-lived asset to be disposed of, other than by sale, be classified as "held and used" until it is disposed of and establishes more restrictive criteria to classify an asset as "held for sale". SFAS No. 144 also supercedes Accounting Principles Bulletin ("APB") Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", regarding the disposal of a SEGMENT OF A BUSINESS (as previously defined in that Opinion), and amends Accounting Research Bulletin ("ARB") No. 51, "Consolidated Financial Statements", to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. Statement 144 was adopted by the Company on July 1, 2002. The Company does not anticipate that adoption of the standard will have a material effect on its financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". The standard rescinds Statement 4 which required all gains and losses from extinguishment of debt to be aggregated and, when material, classified as an extraordinary item net of related income tax effect. Statement 145 also amends Statement 13 to require that certain lease modifications having economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. The Company adopted the provisions of the standard related to the rescission of Statement 4 on July 1, 2002. The provisions of the standard related to Statement 13 were adopted for transactions occurring after May 15, 2002. The Company does not expect this Statement will have a material effect on its financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" which addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. The provisions of this Statement are required to be applied to exit or disposal activities that are initiated after December 31, 2002. The Company does not expect this Statement will have a material effect on its financial position or results of operations.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company is exposed to interest rate risk primarily through its borrowing activities. The Company's policy has been to utilize United States dollar denominated borrowings to fund its working capital and investment needs. Short-term debt, if required, is used to meet working capital requirements and long-term debt is generally used to finance long-term investments. There is inherent rollover risk for borrowings as they mature and are renewed at current market rates. The extent of this risk is not quantifiable or predictable because of the variability of future interest rates and the Company's future financing requirements. At June 30, 2002, the Company had \$0.1 million of short-term debt outstanding and \$9.2 million of total long-term debt outstanding.

The Company has one debt instrument outstanding with a variable interest rate. This debt instrument has a principal balance of \$4.6 million and matures in 2004. Based on the principal outstanding in 2002, a one-percentage point increase in the variable interest rate would not have had a significant impact on the Company's 2002 interest expense.

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

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Ethan Allen Interiors Inc. and Subsidiary (the "Company") as of June 30, 2002 and 2001, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended June 30, 2002. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule listed in the index under Item No. 14. The consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial

statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ethan Allen Interiors Inc. and Subsidiary as of June 30, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2002, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Stamford, Connecticut
August 7, 2002

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2002 AND 2001
(In thousands, except share data)

	2002	
<TABLE>		
<CAPTION>		
2001	-----	----

<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 75,688	\$
48,112		
Accounts receivable, less allowance for		
doubtful accounts of \$2,019 at June 30,		
2002 and \$2,679 at June 30, 2001	32,845	
33,055		
Inventories, net (note 3)	174,147	
176,036		
Prepaid expenses and other current assets	18,731	
18,085		
Deferred income taxes (note 11)	17,345	
14,789		
-----		---
Total current assets	318,756	
290,077		
Property, plant and equipment, net (note 4)	293,626	
268,659		
Intangible assets, net (note 5)	69,708	
52,863		
Other assets	6,665	
7,519		
-----		---
Total assets	\$ 688,755	\$
619,118		
=====		

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Current maturities of long-term debt and		
capital lease obligations (notes 6 and 7)	\$ 107	\$
131		
Customer deposits	42,966	
35,790		
Accounts payable	38,027	

27,998		
Accrued compensation and benefits	30,190	
27,766		
Accrued expenses	17,838	
16,169		
-----		---
Total current liabilities	129,128	
107,854		
Long-term debt (note 6)	9,214	
9,356		
Other long-term liabilities	2,066	
2,712		
Deferred income taxes (note 11)	37,158	
34,413		
-----		---
Total liabilities	177,566	
154,335		
Shareholders' equity (notes 8, 9 and 10):		
Class A common stock, par value \$.01, 150,000,000 shares authorized, 45,252,880 shares issued at June 30, 2002 and 45,138,046 shares issued at June 30, 2001	453	
451		
Preferred stock, par value \$.01, 1,055,000 shares authorized, no shares issued and outstanding at June 30, 2002 and 2001	-	
-		
Additional paid-in capital	277,694	
274,645		
-----		---
	278,147	
275,096		
Less:		
Treasury stock (at cost), 6,794,510 shares at June 30, 2002 and 5,735,284 shares at June 30, 2001	(161,428)	
(129,562)		
Retained earnings	394,470	
319,249		
-----		---
Total shareholders' equity	511,189	
464,783		
-----		---
Total liabilities and shareholders' equity	\$ 688,755	\$
619,118		
=====		

</TABLE>

See accompanying notes to consolidated financial statements.

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED JUNE 30, 2002, 2001 AND 2000
(In thousands, except per share data)

<TABLE>
<CAPTION>

	2002	2001	2000
	-----	-----	-----
<S>	<C>	<C>	<C>
Net sales	\$892,288	\$904,133	\$856,171
Cost of sales	470,975	490,477	455,561
	-----	-----	-----
Gross profit	421,313	413,656	400,610
Operating expenses:			
Selling	163,122	160,394	144,327
General and administrative	123,168	120,309	108,702

Restructuring and impairment charge (note 2)	5,123	6,906	-
Total operating expenses	291,413	287,609	253,029
Operating income	129,900	126,047	147,581
Interest and other miscellaneous income, net	2,984	2,814	443
Interest and other related financing costs	640	758	1,254
Income before income taxes	132,244	128,103	146,770
Income tax expense (note 11)	49,988	48,423	56,200
Net income	\$ 82,256	\$ 79,680	\$ 90,570
Per share data (notes 8 and 9):			
Net income per basic share	\$ 2.12	\$ 2.02	\$ 2.25
Basic weighted average common shares	38,828	39,390	40,301
Net income per diluted share	\$ 2.06	\$ 1.98	\$ 2.20
Diluted weighted average common shares	39,942	40,321	41,198
Dividends declared per common share	\$ 0.18	\$ 0.16	\$ 0.16

</TABLE>

See accompanying notes to consolidated financial statements.

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2002, 2001 AND 2000
(In thousands)

<TABLE>
<CAPTION>

	2002	2001	2000
	-----	-----	-----

<S>	<C>	<C>	<C>
Operating activities:			
Net income	\$ 82,256	\$ 79,680	\$
90,570			
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	19,314	20,220	
16,975			
Restructuring and impairment charge	4,134	6,356	-
Compensation expense related to restricted stock award	140	552	
898			
Provision for deferred income taxes	189	(3,339)	
(1,806)			
Other non-cash (benefit) charge	(1,103)	(2,289)	
(424)			
Change in assets and liabilities, net of the effects of acquired and divested businesses:			
Accounts receivable	(2,390)	1,334	
(783)			
Inventories	16,641	(18,964)	
(9,243)			
Prepaid and other current assets	1,364	(1,665)	
(3,181)			
Other assets	401	(1,528)	

(973)	Customer deposits	7,176	(6,732)	
11,312	Income taxes and accounts payable	(4,074)	5,760	
(5,857)	Accrued expenses	1,921	7,083	
7,140	Other liabilities	(646)	1,119	
223		-----	-----	----

	Net cash provided by operating activities	125,323	87,587	
104,851		-----	-----	----

	Investing activities:			
	Proceeds from the disposal of property, plant, and equipment	4,873	9,214	
1,112	Capital expenditures	(31,078)	(38,516)	
(42,065)	Acquisitions	(42,403)	(9,722)	
(12,631)	Other	143	532	
805		-----	-----	----

	Net cash used in investing activities	(68,465)	(38,492)	
(52,779)		-----	-----	----

	Financing activities:			
	Borrowings on revolving credit facility	-	1,500	
78,000	Payments on revolving credit facility	-	(9,500)	
(70,000)	Other payments on long-term debt and capital leases	(166)	(420)	
(768)	Payments to acquire treasury stock	(24,668)	(1,069)	
(49,606)	Net proceeds from issuance of common stock	1,753	759	
2,351	Increase in deferred financing costs	-	-	
(524)	Dividends paid	(6,201)	(6,277)	
(6,469)		-----	-----	----

	Net cash used in financing activities	(29,282)	(15,007)	
(47,016)		-----	-----	----

	Net increase in cash and cash equivalents	27,576	34,088	
5,056				
	Cash and cash equivalents - beginning of year	48,112	14,024	
8,968		-----	-----	----

	Cash and cash equivalents - end of year	\$ 75,688	\$ 48,112	\$
14,024		=====	=====	
=====				
	Supplemental disclosure:			
	Cash payments for:			
	Income taxes	\$ 44,815	\$ 50,365	\$
61,319	Interest	522	618	
980				

See accompanying notes to consolidated financial statements.
</TABLE>

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED JUNE 30, 2002, 2001 AND 2000
(In thousands, except share data)

<TABLE>
<CAPTION>

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings
Total	-----	-----	-----	-----

<S>	<C>	<C>	<C>	<C>
<C>				
Balance at June 30, 1999 \$350,535	\$ 447	\$267,286	\$ (78,887)	\$161,689
Issuance of 414,593 shares of common stock upon the exercise of stock options and restricted stock award compensation (note 10) 3,249	4	3,245	-	-
Purchase of 1,928,350 shares of treasury stock (note 8) (49,606)	-	-	(49,606)	-
Dividends declared on common stock (6,418)	-	-	-	(6,418)
Tax benefit associated with the exercise of employee stock options and warrants 2,179	-	2,179	-	-
Net income 90,570	-	-	-	90,570
-----	----	-----	-----	-----
Balance at June 30, 2000 390,509	451	272,710	(128,493)	245,841
Issuance of 56,662 shares of common stock upon the exercise of stock options and restricted stock award compensation (note 10) 1,311	-	1,311	-	-
Purchase of 61,006 shares of treasury stock (note 8) (1,069)	-	-	(1,069)	-
Dividends declared on common stock (6,272)	-	-	-	(6,272)
Tax benefit associated with the exercise of employee stock options and warrants 624	-	624	-	-
Net income 79,680	-	-	-	79,680
-----	----	-----	-----	-----
Balance at June 30, 2001 464,783	451	274,645	(129,562)	319,249
Issuance of 114,834 shares of common stock upon the exercise of stock options and restricted stock award compensation (note 10) 1,893	2	1,891	-	-
Purchase of 1,059,226 shares of treasury stock (31,866)	-	-	(31,866)	-
Dividends declared on common stock (7,035)	-	-	-	(7,035)
Charge for early vesting of stock options	-	137	-	-

Tax benefit associated with the exercise of employee stock options and warrants (note 8)	-	1,021	-	-
1,021				
Net income	-	-	-	82,256
82,256				
-----	----	-----	-----	-----
Balance at June 30, 2002	\$ 453	\$277,694	\$(161,428)	\$394,470
\$511,189				
=====	====	=====	=====	=====

See accompanying notes to consolidated financial statements.

</TABLE>

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

NATURE OF OPERATIONS

The Company, through its wholly-owned subsidiary, is a leading manufacturer and retailer of quality home furnishings and sells a full range of furniture products and decorative accessories through an exclusive network of 316 retail stores, of which 103 are Ethan Allen-owned and 213 are independently owned. The Company's retail stores are primarily located in North America, with 20 additional stores located abroad. Ethan Allen has 17 manufacturing facilities, including 3 sawmill operations, located throughout the United States.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RECLASSIFICATIONS

Certain reclassifications have been made to prior years' financial statements in order to conform to the current year's presentation. These changes did not have a material impact on previously reported results of operations or shareholders' equity.

CASH EQUIVALENTS

The Company considers all highly liquid cash investments with original maturities of three months or less to be cash equivalents.

INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out) or market.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost. Depreciation of plant and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. Estimated useful lives of

the respective assets generally range from twenty to forty years for buildings and improvements and from three to twenty years for machinery and equipment.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RETAIL STORE ACQUISITIONS

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

INTANGIBLE ASSETS

The Company's intangible assets are comprised, primarily, of goodwill, which represents the excess of cost over the fair value of net assets acquired, product technology, and trademarks. On July 1, 2001, the Company adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets". In re-assessing the useful lives of its goodwill and other intangible assets upon adoption of the standard, the Company determined these assets to have indefinite useful lives. Accordingly, amortization of these assets ceased on that date. Prior to July 1, 2001, these assets were amortized on a straight-line basis over forty years.

Statement 142 requires that the Company annually perform an impairment analysis to assess the recoverability of the recorded balance of goodwill and other intangible assets. The provisions of the Statement indicate that the impairment test should be conducted more frequently if events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit (as defined) below its carrying value. The Company performed an initial impairment analysis upon adoption of the standard. No impairment losses were recorded as a result of that analysis.

FINANCIAL INSTRUMENTS

The carrying value of the Company's financial instruments approximates fair value.

INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

REVENUE RECOGNITION

Sales are recorded to dealers when goods are shipped, at which point title has passed. Sales made through Ethan Allen-owned stores are recognized when delivery is made to the customer.

SHIPPING AND HANDLING COSTS

Ethan Allen's policy is to sell its products at the same delivered cost to all retailers nationwide, regardless of their shipping point. Costs incurred to deliver finished goods to the consumer are expensed and recorded in selling, general and administrative expenses. Shipping and handling costs were \$60.4 million, \$59.8 million, and \$54.4 million for fiscal years 2002, 2001, and 2000, respectively.

ADVERTISING COSTS

Advertising costs are expensed when first aired or distributed. Advertising costs for the fiscal years 2002, 2001 and 2000, were \$44.2 million, \$45.9 million, and \$44.4 million, respectively. Prepaid advertising costs at June 30, 2002 and 2001 were \$4.2 million and \$4.3 million, respectively.

CLOSED STORE EXPENSES

Future expenses, such as rent and real estate taxes, net of expected lease or sublease recovery, which will be incurred subsequent to vacating a closed Ethan Allen-owned store, are charged to operations upon a formal decision to close the store.

EARNINGS PER SHARE

The Company computes basic earnings per share by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if all potentially dilutive common shares were exercised.

STOCK COMPENSATION

As permitted by SFAS No. 123 "Accounting for Stock Based Compensation", the Company follows the provisions of APB No. 25, "Accounting for Stock Issued to Employees", and related interpretations, in accounting for compensation expense related to the issuance of stock options.

COMPREHENSIVE INCOME

The Company does not have any components of comprehensive income as defined under SFAS No. 130, "Reporting Comprehensive Income".

DERIVATIVE INSTRUMENTS

The Company adopted SFAS No. 133, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" and SFAS No. 138, which later amended Statement 133, in fiscal year 2001. Upon review of its current contracts, the Company has determined that it has no derivative instruments as defined under these standards.

NEW ACCOUNTING STANDARDS

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While Statement 144 supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", it retains the fundamental provisions of that Statement. In addition, the standard provides guidance on estimating cash flows when performing a recoverability test, requires that a long-lived asset to be disposed of, other than by sale, be classified as "held and used" until it is disposed of and establishes more restrictive criteria to classify an asset as "held for sale". SFAS No. 144 also supercedes APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", regarding the disposal of a SEGMENT OF A BUSINESS (as previously defined in that Opinion), and amends ARB No. 51, "Consolidated Financial Statements", to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. Statement 144 was adopted by the Company on July 1, 2002. The Company does not anticipate that adoption of the standard will have a material effect on its financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". The standard rescinds Statement 4 which required all gains and losses from extinguishment of debt to be aggregated and, when material, classified as an extraordinary item net of related income tax effect. Statement 145 also amends Statement 13 to require that certain lease modifications having economic effects

similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. The Company adopted the provisions of the standard related to the rescission of Statement 4 on July 1, 2002. The provisions of the standard related to Statement 13 were adopted for transactions occurring after May 15, 2002. The Company does not expect this Statement will have a material effect on its financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" which addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. The provisions of this Statement are required to be applied to exit or disposal activities that are initiated after December 31, 2002. The Company does not expect this Statement will have a material effect on its financial position or results of operations.

(2) RESTRUCTURING AND IMPAIRMENT CHARGE

During each of the last two fiscal years, the Company developed and executed plans to consolidate its manufacturing operations as part of an overall strategy to maximize production efficiencies and maintain its competitive advantage. In the fourth quarter of fiscal 2002, the Company initiated a plan which involved the closure of one of its manufacturing facilities as well as the rough mill operation of a separate facility. Closure of these facilities resulted in the elimination of approximately 220 employees; 150 employees effective June 29, 2002, and 70 employees expected to be terminated during the first quarter of fiscal 2003. A pre-tax restructuring and impairment charge of \$5.1 million was recorded for costs associated with these plant closings, of which \$2.0 million principally relates to employee severance and benefits costs and plant exit costs, and \$3.1 million relates to a fixed asset impairment charge, primarily for properties and machinery and equipment of the closed facilities.

In the fourth quarter of fiscal 2001, the Company announced the closure of three of its manufacturing facilities and the elimination of approximately 350 employees effective August 6, 2001. A pre-tax restructuring and impairment charge of \$6.9 million was recorded for costs associated with the plant closings, of which \$3.3 million principally relates to employee severance and benefits costs and plant exit costs, and \$3.6 million relates to a fixed asset impairment charge, primarily for properties and machinery and equipment of the closed facilities.

As of June 30, 2002, restructuring reserves totaling \$1.2 million were included in the Consolidated Balance Sheets as an accrued expense in current liabilities. In addition, total impairment charges of \$6.7 million (\$3.1 million and \$3.6 million in 2002 and 2001, respectively) were recorded to reduce certain property, plant and equipment to net realizable value.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Activity in the Company's restructuring reserves is summarized as follows (in thousands):

<TABLE>
<CAPTION>

FISCAL 2002 RESTRUCTURING	Original Charges -----	Cash Payments -----	Non-cash Utilized -----	Total -----
<S>	<C>	<C>	<C>	<C>
Employee severance and other related payroll and benefit costs	\$ 1,847	\$ (989)	\$ -	\$ 858
Plant exit costs and other	171	-	-	171
Write-down of long-lived assets	3,105	-	(3,105)	-

Balance as of June 30, 2002	\$ 5,123	\$ (989)	\$ (3,105)	\$ 1,029
	=====	=====	=====	=====

</TABLE>
<TABLE>
<CAPTION>

FISCAL 2001 RESTRUCTURING

	Original Charges	Cash Payments	Non-cash Utilized	Total
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Employee severance and other related payroll and benefit costs	\$ 2,974	\$ (2,916)	\$ -	\$ 58
Plant exit costs and other	332	(258)	-	74
Write-down of long-lived assets	3,600	-	(3,600)	-
	-----	-----	-----	-----
Balance as of June 30, 2002	\$ 6,906	\$ (3,174)	\$ (3,600)	\$ 132
	=====	=====	=====	=====

</TABLE>

(3) INVENTORIES

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

	2002	2001
	-----	-----
Finished goods	\$123,906	\$115,661
Work in process	15,418	19,521
Raw materials	34,823	40,854
	-----	-----
	\$174,147	\$176,036
	=====	=====

(4) PROPERTY, PLANT AND EQUIPMENT

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

	2002	2001
	-----	-----
Land and improvements	\$ 54,771	\$ 41,382
Buildings and improvements	230,089	214,972
Machinery and equipment	152,860	146,193
	-----	-----
	437,720	402,547
Less: accumulated depreciation	(144,094)	(133,888)
	-----	-----
	\$293,626	\$268,659
	=====	=====

(5) INTANGIBLE ASSETS

On July 1, 2001, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets". As of June 30, 2002, the Company had goodwill, including product technology, (net of accumulated amortization) of \$50.0 million and other identifiable intangible assets (net of accumulated amortization) of \$19.7 million. Comparable balances as of June 30, 2001 were \$33.1 million and \$19.7 million, respectively.

Goodwill in the wholesale and retail segments was \$27.5 million and \$22.5 million, respectively, at June 30, 2002 and \$26.1 million and \$7.0 million, respectively, at June 30, 2001. The wholesale segment, at both dates, includes additional intangible assets of \$19.7 million. These assets consist of Ethan Allen trade names which were formerly being amortized over 40 years. The Company has re-assessed the useful lives of goodwill and other intangible

assets and both were determined to have indefinite useful lives. As such, amortization of these assets ceased on July 1, 2001. No impairment losses were recorded on these intangible assets due to the adoption of Statement 142.

The following table reconciles the Company's reported net income and

earnings per share with pro forma balances from previous periods adjusted to exclude goodwill amortization, which is no longer required under Statement 142. The current year's net income and earnings per share are presented for comparative purposes only (in thousands, except per share data):

<TABLE>
<CAPTION>

	YEAR ENDED JUNE 30,		
	2002	2001	2000
<S>	<C>	<C>	<C>
Net Income:			
Reported net income	\$82,256	\$79,680	\$90,570
Add back: Goodwill amortization, after-tax	-	694	651
Add back: Intangible asset amortization, after-tax	-	439	435
Adjusted net income	\$82,256	\$80,813	\$91,656
Basic Earnings per Share:			
Reported earnings per share	\$ 2.12	\$ 2.02	\$ 2.25
Goodwill amortization	-	0.02	0.02
Intangible asset amortization	-	0.01	0.01
Adjusted earnings per share	\$ 2.12	\$ 2.05	\$ 2.28
Diluted Earnings per Share:			
Reported earnings per share	\$ 2.06	\$ 1.98	\$ 2.20
Goodwill amortization	-	0.02	0.02
Intangible asset amortization	-	0.01	0.01
Adjusted earnings per share	\$ 2.06	\$ 2.01	\$ 2.23

</TABLE>

(6) BORROWINGS

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

	2002	2001
Revolving Credit Facility	\$ -	\$ -
Industrial Revenue Bonds, 2.45% - 7.50%, maturing at various dates through 2011	8,455	8,455
Other	866	1,032
Total debt	9,321	9,487
Less: current maturities and short-term capital lease obligations	107	131
Long-term debt	\$ 9,214	\$ 9,356

The Company has a \$125.0 million unsecured Revolving Credit Facility (the "Credit Agreement") with J. P. Morgan Chase & Co. as administrative agent and Fleet Bank, NA and Wachovia Bank, NA as co-documentation agents. The Credit Agreement includes sub-facilities for trade and standby letters of credit of \$25.0 million and swingline loans of \$3.0 million. Revolving loans under the Credit Agreement bear interest at J. P. Morgan Chase & Co.'s Alternative Base Rate, or adjusted LIBOR plus 0.625%, and is subject to adjustment arising from changes in the credit rating of Ethan Allen's senior unsecured debt. The Credit Agreement provides for the payment of a commitment fee equal to 0.15% per annum on the average daily unused amount of the revolving credit commitment. The Company is also required to pay a fee equal to 0.75% per annum on the average daily letters of credit outstanding. At June 30, 2002 there were no revolving loans outstanding and \$19.5 million of trade and standby letters of credit outstanding under the Credit Agreement. Remaining available borrowing capacity under the Credit Agreement was \$105.5 million at

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2002. For fiscal years ended June 30, 2002, 2001 and 2000 the weighted-average interest rates were 4.45%, 5.55%, and 6.22%, respectively.

The Credit Agreement matures in August of 2004 and there are no minimum repayments required during the term of the facility. The revolving loans may be borrowed, repaid and reborrowed over the term of the facility until final maturity.

The Credit Agreement contains various covenants which limit the ability of the Company and its subsidiaries to incur debt, engage in mergers and consolidations, make restricted payments, sell certain assets, make investments and issue stock. The Company is also required to meet certain financial covenants including consolidated net worth, fixed charge coverage and leverage ratios. As of June 30, 2002, the Company had satisfactorily complied with all covenants related to the Credit Agreement.

The Company has loan commitments in the aggregate amount of approximately \$1.0 million related to the modernization of its Beecher Falls, Vermont manufacturing facility. Loans made pursuant to these commitments bear interest at rates ranging from 3.0% to 5.5% and have maturities of 10 to 30 years. The loans have a first and second lien in respect of equipment financed by such loans and a first and second mortgage interest in respect of the building, the construction of which was financed by such loans.

Aggregate scheduled maturities of long-term debt for each of the five fiscal years subsequent to June 30, 2002, and thereafter are as follows (in thousands):

FISCAL YEAR ENDING JUNE 30:

2003	\$ 107
2004	61
2005	4,662
2006	64
2007	66
Subsequent to 2007	4,361

(7) LEASES

Ethan Allen leases real property and equipment under various operating lease agreements expiring through 2027. Leases covering retail outlets and equipment generally require, in addition to stated minimums, contingent rentals based on retail sales and equipment usage. Generally, the leases provide for renewal for various periods at stipulated rates.

Future minimum payments by year, and in the aggregate, under non-cancelable operating leases consisted of the following at June 30, 2002 (in thousands):

FISCAL YEAR ENDING JUNE 30:

2003	\$ 22,093
2004	20,235
2005	18,565
2006	16,219
2007	14,436
Subsequent to 2007	46,438

Total minimum lease payments	\$137,986
	=====

The above amounts will be offset in the aggregate by minimum future rentals from subleases of \$14.6 million.

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

	2002	2001	2000
	-----	-----	-----
Basic rentals under operating leases	\$ 21,890	\$ 18,496	\$ 16,102
Contingent rentals under operating leases	729	895	1,972
	-----	-----	-----
	22,619	19,391	18,074
Less: sublease rent	3,307	3,084	3,314
	-----	-----	-----
	\$ 19,312	\$ 16,307	\$ 14,760
	=====	=====	=====

(8) SHAREHOLDERS' EQUITY

The Company's authorized capital stock consists of (a) 150,000,000 shares of Common Stock, par value \$.01 per share, (b) 600,000 shares of Class B Common Stock, par value \$.01 per share, and (c) 1,055,000 shares of Preferred Stock, par value \$.01 per share, of which (i) 30,000 shares have been designated Series A Redeemable Convertible Preferred Stock, (ii) 30,000 shares have been designated Series B Redeemable Convertible Preferred Stock, (iii) 155,010 shares have been designated as Series C Junior Participating Preferred Stock, and (iv) the remaining 839,990 shares may be designated by the Board of Directors with such rights and preferences as they determine (all such preferred stock, collectively, the "Preferred Stock"). As of June 30, 2002 and 2001, there were no shares of Preferred Stock or Class B Common Stock issued or outstanding.

The Company has been authorized by its Board of Directors to repurchase its common stock from time to time, either directly or through agents, in the open market at prices and on terms satisfactory to the Company. The Company also repurchases shares of common stock from terminated or retiring employee's accounts in the Ethan Allen Retirement Savings Plan and retires shares of unvested restricted stock. All of the Company's common stock repurchases and retirements are recorded as treasury stock and result in a reduction of shareholders' equity. During fiscal years 2002, 2001 and 2000 the Company repurchased and/or retired the following shares of its common stock:

<TABLE>
<CAPTION>

	2002	2001(1)	2000
	-----	-----	-----
<S>	<C>	<C>	<C>
Common shares repurchased	1,059,226	61,006	1,928,350
Cost to repurchase common shares	\$31,865,423	\$1,069,587	\$49,605,555
Average price per share	\$30.08	\$17.53	\$25.72

(1) Includes the repurchase of 28,000 shares at \$.01 per share previously issued under the Company's Restricted Stock Award Plan. Excluding the effect of these repurchases, the average price per share was \$32.40.

</TABLE>

The Company funded its purchases through cash from operations and through revolver loan borrowings under the Credit Agreement. As of June 30, 2002, the Company had a remaining Board authorization to purchase 1.7 million shares.

On May 20, 1996, the Board of Directors adopted a Stockholder Rights Plan and declared a dividend of one Right for each outstanding share of common stock as of July 10, 1996. Each Right entitles its holder, under certain circumstances, to purchase one one-hundredth of a share of the Company's Series C Junior Participating Preferred Stock at a price of \$41.67 on a post split basis. The Rights may not be exercised until 10 days after a person or group acquires 15% or more of the Company's common stock, or 15 days after the commencement or the announcement of the intent to commence a tender offer which, if consummated, would result in a 15% or more ownership of the Company's common stock. Until then, separate Rights certificates will not be issued, nor will the Rights be traded separately from the stock.

Should an acquirer become the beneficial owner of 15% of the Company's common stock, and under certain additional circumstances, the Company's stockholders (other than the acquirer) would have the right to receive

in lieu of the Series C Junior Participating Preferred Stock, a number of shares of the Company's common stock, or in stock of the surviving enterprise if the Company is acquired, having a market value equal to two times the purchase price per share. The Rights will expire on May 31, 2006, unless redeemed prior to that date. The redemption price is \$0.01 per Right. The Board of Directors may redeem the Rights at its option any time prior to the announcement that a person or group has acquired 15% or more of the Company's common stock.

(9) EARNINGS PER SHARE

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

	2002	2001	2000
	-----	-----	-----
Weighted average common shares outstanding for basic calculation	38,828	39,390	40,301
Add: Dilutive effect of stock options and warrants	1,114	931	897
	-----	-----	-----
Weighted average common shares outstanding, adjusted for diluted calculation	39,942	40,321	41,198
	=====	=====	=====

In 2002 and 2000, stock options to purchase 67,825 and 986,600 shares, respectively, had exercise prices which exceeded the average market price for each corresponding period. These options have been excluded from the respective diluted earnings per share calculation as their impact is anti-dilutive. No such anti-dilutive stock options existed in 2001.

(10) EMPLOYEE STOCK PLANS

The Company has reserved 7,419,699 shares of Common Stock for issuance pursuant to the Company's stock option and warrant plans as follows:

1992 STOCK OPTION PLAN

The 1992 Stock Option Plan provides for the grant of options to employees and non-employee directors to purchase shares of Common Stock that are either qualified or non-qualified under Section 422 of the Internal Revenue Code, as well as stock appreciation rights on such options. The awarding of such options is determined by the Compensation Committee of the Board of Directors after consideration of recommendations proposed by the Chief Executive Officer. The options awarded to employees vest 25% per year over a four-year period and are exercisable at the market value of the Common Stock at the date of grant. The maximum number of shares of Common Stock reserved for issuance under the 1992 Stock Option Plan is 5,490,597 shares.

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

RESTRICTED STOCK AWARD

As of July 1, 1994 and for each successive year through July 1, 1998, an annual award of 30,000 shares of restricted stock was granted to Mr. Kathwari, the President and Chief Executive Officer, with the vesting based on performance of the Company's stock price during the three-year period after grant as compared to the Standard and Poors 500 index. Under the discretion of the Compensation Committee, Mr. Kathwari has been deemed vested in 92,000 shares as of June 30, 2002.

STOCK UNIT AWARD

During fiscal year 1998, the Company established a book account for Mr. Kathwari, which will be credited with 21,000 Stock Units as of July 1 of each year, commencing July 1, 1997, for a total of up to 105,000 Stock Units, over the term of Mr. Kathwari's employment agreement, with an additional 21,000 Stock Units to be credited in connection with each of the two one-year extensions. Following the termination of Mr. Kathwari's employment, Mr. Kathwari will receive shares of Common Stock equal to the number of Stock Units credited to the account.

INCENTIVE STOCK OPTION PLAN

In 1991, pursuant to the Incentive Stock Option Plan, the Company granted to members of management options to purchase 829,542 shares of Common Stock at an exercise price of \$5.50 per share. These options vested twenty percent per year over a five-year period.

MANAGEMENT WARRANTS

Warrants to purchase 699,560 shares of Common Stock were granted to certain key members of management during fiscal years 1991 and 1992. The warrants have been fully earned and were exercisable at \$1.23 per share.

Stock option and warrant activity during fiscal years 2002, 2001 and 2000 was as follows:

	NUMBER OF SHARES		
	92 Stock Option Plan	Incentive Options	Management Warrants
Options Outstanding at June 30, 1999	3,109,475	295,857	44,688
Granted in 2000	395,290	-	-
Exercised in 2000	(88,063)	(281,850)	(44,680)
Canceled in 2000	(33,112)	(7)	(8)
Options Outstanding at June 30, 2000	3,383,590	14,000	-
Granted in 2001	35,225	-	-
Exercised in 2001	(67,882)	(6,000)	-
Canceled in 2001	(55,658)	-	-
Options Outstanding at June 30, 2001	3,295,275	8,000	-
Granted in 2002	94,625	-	-
Exercised in 2002	(106,846)	(8,000)	-
Canceled in 2002	(16,073)	-	-
Options Outstanding at June 30, 2002	3,266,981	-	-

The following table summarizes the stock awards outstanding at June 30, 2002:

<TABLE>
<CAPTION>

	Range of Prices	Options Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>
1992 Stock Option Plan	\$ 6.00 to \$ 6.50	1,089,075	2.7 yrs	\$ 6.36
	\$14.50 to \$18.21	90,355	4.7 yrs	\$15.14
	\$21.17 to \$25.00	1,009,856	5.8 yrs	\$22.06
	\$26.25 to \$28.31	860,126	5.5 yrs	\$27.42
	\$29.23 to \$33.78	137,744	7.3 yrs	\$31.44
	\$38.00 to \$41.59	79,825	9.7 yrs	\$39.17
		3,266,981		

</TABLE>

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the number of shares exercisable at June 30, 2002:

	Range of Prices	Number of Shares Exercisable	Weighted Average Exercise Price
1992 Stock Option Plan	\$ 6.00 to \$ 6.50	986,217	\$ 6.37
	\$14.50 to \$18.21	90,355	\$15.14
	\$21.17 to \$25.00	893,858	\$21.68
	\$26.25 to \$28.31	826,851	\$27.44
	\$29.23 to \$33.78	76,167	\$31.70
	\$38.00 to \$41.59	125	\$41.59

2,873,573
=====

Had compensation costs related to the issuance of stock options under the Company's 1992 Stock Option Plan been determined based on the estimated fair value at the grant dates for awards under SFAS No. 123, the Company's net income end earnings per share for the fiscal years ended June 30, 2002, 2001 and 2000 would have been reduced to the pro forma amounts listed below, (in thousands, except per share data):

	2002 -----	2001 -----	2000 -----
NET INCOME			
As reported	\$82,256	\$79,680	\$90,570
Pro forma	81,017	78,517	86,630
NET INCOME PER BASIC SHARE			
As reported	\$2.12	\$2.02	\$2.25
Pro forma	2.09	1.99	2.15
NET INCOME PER DILUTED SHARE			
As reported	\$2.06	\$1.98	\$2.20
Pro forma	2.03	1.95	2.10

The per share weighted average fair value of stock options granted during fiscal 2002, 2001 and 2000 was \$16.06, \$13.60, and \$12.24, respectively. The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions: weighted average risk-free interest rates of 4.50%, 5.39%, and 6.22% for fiscal 2002, 2001 and 2000, respectively; dividend yield of 0.48%, 0.53%, and 0.61% for fiscal 2002, 2001 and 2000, respectively; expected volatility of 43.9%, 45.0%, and 45.9% in fiscal 2002, 2001 and 2000, respectively; and expected lives of five years for each.

(11) INCOME TAXES

Total income taxes were allocated as follows (in thousands):

	2002 -----	2001 -----	2000 -----
Income from operations	\$ 49,988	\$ 48,423	\$ 56,200
Stockholders' equity	(1,021)	(624)	(2,179)
	-----	-----	-----
	\$ 48,967	\$ 47,799	\$ 54,021
	=====	=====	=====

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

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

	2002 -----	2001 -----	2000 -----
Current:			
Federal	\$ 44,548	\$ 46,513	\$ 49,934
State	5,251	5,249	8,072
	-----	-----	-----
Total current	49,799	51,762	58,006
	-----	-----	-----
Deferred:			
Federal	180	(3,157)	(1,650)
State	9	(182)	(156)
	-----	-----	-----
Total deferred	189	(3,339)	(1,806)
	-----	-----	-----
Income tax expense	\$ 49,988	\$ 48,423	\$ 56,200
	=====	=====	=====

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

	2002	2001	2000
	-----	-----	-----
Computed "expected" income tax expense	\$ 46,285	\$ 44,836	\$ 51,370
State income taxes, net of federal income tax benefit	3,126	3,162	5,247
Goodwill amortization	109	265	143
Other, net	468	160	(560)
	-----	-----	-----
Actual income tax expense	\$ 49,988	\$ 48,423	\$ 56,200
	=====	=====	=====

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

	2002	2001	2000
	-----	-----	-----
Deferred tax expense (benefit)	\$ (1,268)	\$ (4,795)	\$ (3,309)
Utilization of net operating loss carryforwards	1,457	1,456	1,503
	-----	-----	-----
Total deferred tax expense (benefit)	\$ 189	\$ (3,339)	\$ (1,806)
	=====	=====	=====

The components of the net deferred tax liability as of June 30 are as follows (in thousands):

	2002	2001
	-----	-----
Deferred tax assets:		
Accounts receivable	\$ 923	\$ 1,194
Inventories	4,407	3,154
Other liabilities and reserves	12,015	10,441
Net operating loss carryforwards	4,076	5,533
	-----	-----
Total deferred tax asset	21,421	20,322
	-----	-----
Deferred tax liabilities:		
Property, plant and equipment	23,192	24,202
Intangible assets other than goodwill	13,354	13,327
Non-deductible temporary differences arising as a result of Section 481a changes in accounting methods	4,102	1,050
Other	586	1,367
	-----	-----
Total deferred tax liability	41,234	39,946
	-----	-----
Net deferred tax liability	\$ 19,813	\$ 19,624
	=====	=====

The Company has tax operating loss carryforwards of approximately \$10.7 million at June 30, 2002, of which \$0.1 million expires in 2007 and \$10.6 million expires in 2008. Pursuant to Section 382 of the Internal Revenue Code, the Company's utilization of the net operating loss carryforwards is subject to an annual limitation of approximately \$3.9 million.

Management believes that the results of future operations will generate sufficient taxable income to realize the deferred tax assets.

(12) EMPLOYEE RETIREMENT PROGRAMS

THE ETHAN ALLEN RETIREMENT SAVINGS PLAN

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

Ethan Allen may, at its discretion, make a matching contribution to the 401(k) portion of the Plan on behalf of each participant, provided the contribution does not exceed the lesser of 50% of the participant's contribution or \$1,000 per participant per Plan year. Total profit sharing and 401(k) company match expense was \$5.1 million in 2002, \$5.5 million in 2001, and \$3.2 million in 2000.

OTHER RETIREMENT PLANS AND BENEFITS

Ethan Allen provides additional benefits to selected members of senior and middle management in the form of previously entered deferred compensation arrangements and a management cash bonus and other incentive program. The total cost of these benefits was \$4.2 million, \$5.0 million, and \$4.4 million in 2002, 2001 and 2000, respectively.

(13) LITIGATION

The Company has been named as a potentially responsible party ("PRP") for the cleanup of three active sites currently listed or proposed for inclusion on the National Priorities List ("NPL") under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"). The Company has resolved its liability at one of the sites by completing remedial action activities. With regard to the other two sites, the Company does not anticipate incurring significant cost as it believes that it is not a major contributor based on the very small volume of waste generated by the Company in relation to total volume at the site. However, liability under CERCLA may be joint and several. Additionally, the Company has recently been notified by the State of New York that it may be a PRP in a separate, unrelated matter. As a result, the extent of any adverse effect on the Company's financial condition, results of operations, or cash flows with respect to this matter cannot be reasonably estimated at this time.

(14) RELATED PARTY TRANSACTIONS

On August 31, 2001, the Company acquired certain assets associated with the retail operations of 6 Ethan Allen Home Interiors stores in the Pittsburgh and Cleveland metropolitan areas from two entities owned and controlled by Mr. Edward Teplitz. The total purchase price for the assets was \$10.1 million, net of the assumption of certain liabilities and subject to post-closing adjustments. Approximately \$3.5 million of the purchase price was allocated to two real estate properties acquired in the transaction with the remaining \$6.6 million allocated to other assets. The purchase price was determined by mutual negotiation, based upon the fair value of net assets acquired and supported, as appropriate, by independent third-party appraisals. Subsequent to the closing, Mr. Teplitz joined the Company as Vice President of Finance. In August 2002, Mr. Teplitz was named Chief Financial Officer of the Company.

(15) SUBSEQUENT EVENT

In July 2002, the Company increased its percentage ownership in the operations of 7 Ethan Allen retail stores (and 1 related service center) located throughout Canada by acquiring the remaining 75% interest in a transaction accounted for as a purchase business combination. The Company had previously held a 25% interest in the operations of these stores which it acquired in July 1997.

In September 2002, the Company acquired the assets of 6 Ethan Allen retail stores (and 1 related service center) located in the greater Chicago area. This transaction was accounted for as a purchase business combination.

(16) SEGMENT INFORMATION

The Company's reportable segments are strategic business areas that are managed separately and offer different products and services. The Company's operations are classified into two main segments: wholesale and retail.

The wholesale segment is principally involved in the manufacture, sale and distribution of home furnishing products to a network of independently-owned and Ethan Allen-owned stores. Wholesale profitability includes the wholesale gross margin, which is earned on wholesale sales to all retail stores, including Ethan Allen-owned stores.

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

The Company evaluates performance of the respective segments based upon revenues and operating income. Inter-segment eliminations primarily comprise the wholesale sales and profit on the transfer of inventory between segments. Inter-segment eliminations also include items not allocated to reportable segments.

During the third quarter of 2001, the Company re-evaluated its operating segments and as a result changed its segment reporting format from five segments (case goods, upholstery, home accessories, retail, and other) to two segments (wholesale and retail). This change reflects how management currently manages its operations, resulting in part, from the growth in the Company's retail business. The following table presents segment information for the fiscal years ended June 30, 2002, 2001, and 2000 (in thousands):

<TABLE>
<CAPTION>

	2002	2001	2000
	-----	-----	-----
<S>	<C>	<C>	<C>
NET SALES:			
Wholesale segment	\$660,818	\$705,651	\$691,076
Retail segment	459,640	419,322	372,058
Elimination of inter-company sales	(228,170)	(220,840)	(206,963)
	-----	-----	-----
Consolidated Total	\$892,288	\$904,133	\$856,171
	=====	=====	=====
OPERATING INCOME:			
Wholesale segment (1)	\$110,078	\$100,503	\$132,553
Retail segment	23,125	23,142	20,457
Elimination (2)	(3,303)	2,402	(5,429)
	-----	-----	-----
Consolidated Total	\$129,900	\$126,047	\$147,581
	=====	=====	=====
CAPITAL EXPENDITURES:			
Wholesale segment	\$ 13,601	\$ 22,147	\$ 22,393
Retail segment	17,477	16,369	19,672
Acquisitions (3)	42,403	9,722	12,631
	-----	-----	-----
Consolidated Total	\$ 73,481	\$ 48,238	\$ 54,696
	=====	=====	=====
TOTAL ASSETS:			
Wholesale segment	\$459,311	\$453,650	\$385,421
Retail segment	259,770	190,067	186,160
Inventory profit elimination (4)	(30,326)	(24,599)	(28,010)
	-----	-----	-----
Consolidated Total	\$688,755	\$619,118	\$543,571
	=====	=====	=====

</TABLE>

- (1) Operating income for the wholesale segment includes pre-tax restructuring and impairment charges of \$5.1 million and \$6.9 million recorded in the fourth quarter of fiscal years 2002 and 2001, respectively.

- (2) The adjustment reflects the change in the elimination entry for profit in ending inventory.
- (3) Acquisitions include the purchase of 20 retail stores in 2002, one retail store and the Dublin, Virginia manufacturing facility in 2001, and 8 retail stores in 2000.
- (4) Inventory profit elimination reflects the embedded wholesale profit in the Company-owned store inventory that has not been realized. These profits will be recorded when shipped to the retail customer.

States. Approximately 2.0% of the Company's net sales are derived from sales to these retail stores.

(17) SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Tabulated below are certain data for each quarter of the fiscal years ended June 30, 2002, 2001, and 2000 (in thousands, except per share data):

<TABLE>
<CAPTION>

<S>	QUARTER ENDED			
	SEPTEMBER 30	DECEMBER 31	MARCH 31	JUNE 30
	<C>	<C>	<C>	<C>
FISCAL 2002:				
Net sales	\$206,725	\$222,857	\$227,917	\$234,789
Gross profit	93,969	103,380	108,436	115,528
Net income	16,731	21,195	22,969	21,361
Net income per basic share	0.43	0.55	0.59	0.55
Net income per diluted share	0.42	0.53	0.58	0.54
Dividend declared per common share	0.04	0.04	0.04	0.06
FISCAL 2001:				
Net sales	\$211,231	\$232,667	\$233,791	\$226,444
Gross profit	99,709	107,737	103,511	102,699
Net income	20,700	23,107	20,030	15,843
Net income per basic share	0.53	0.59	0.51	0.40
Net income per diluted share	0.52	0.58	0.50	0.39
Dividend declared per common share	0.04	0.04	0.04	0.04
FISCAL 2000:				
Net sales	\$189,592	\$217,486	\$220,300	\$228,793
Gross profit	88,521	103,899	103,148	105,042
Net income	18,733	24,833	23,171	23,833
Net income per basic share	0.46	0.61	0.58	0.60
Net income per diluted share	0.45	0.59	0.57	0.59
Dividend declared per common share	0.04	0.04	0.04	0.04

</TABLE>

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

No changes in, or disagreements with, accountants on accounting or financial disclosure occurred during fiscal years 2002, 2001 or 2000.

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PART III

Part III is omitted as the Company intends to file with the Commission within 120 days after the end of the Company's fiscal year a definitive proxy statement pursuant to Regulation 14A which will involve the election of directors.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

See reference to definitive proxy statement under Part III.

ITEM 11. EXECUTIVE COMPENSATION

See reference to definitive proxy statement under Part III.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

See reference to definitive proxy statement under Part III.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

See reference to definitive proxy statement under Part III.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

I. Listing of Documents

- (1) FINANCIAL STATEMENTS. The Company's Consolidated Financial Statements, included in Item 8 hereof, as required at June 30, 2002 and 2001, and for the years ended June 30, 2002, 2001 and 2000, consist of the following:

- Consolidated Balance Sheets
- Consolidated Statements of Operations
- Consolidated Statements of Cash Flows
- Consolidated Statements of Shareholders' Equity
- Notes to Consolidated Financial Statements

- (2) FINANCIAL STATEMENT SCHEDULE. Financial Statement Schedule of the Company appended hereto, as required for the years ended June 30, 2002, 2001 and 2000, consist of the following:

- Valuation and Qualifying Accounts

The schedules listed in Reg. 210.5-04, except those listed above, have been omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

- (3) The following Exhibits are filed as part of this report on Form 10-K:

Exhibit NUMBER -----	EXHIBIT -----
*2(a)	Agreement and Plan of Merger, dated May 20, 1989, among the Company, Green Mountain Acquisition Corporation ("Merger Sub"), INTERCO Incorporated, Interco Subsidiary, Inc. and Ethan Allen
*2(b)	Restructuring Agreement, dated March 1, 1991, among Green Mountain Holding Corporation, Ethan Allen, Chemical Bank, General Electric Capital Corporation, Smith Barney Inc. and the stockholder's name on the signature page thereof
*2(c)	Purchase and Sale Agreement, dated March 28, 1997, between the Company and Carriage House Interiors of Colorado, Inc.
*3(a)	Restated Certificate of Incorporation for Green Mountain Holding Corporation
*3(b)	Restated and Amended By-Laws of Green Mountain Holding Corporation
*3(c)	Restated Certificate of Incorporation of the Company

- *3(c)-1 Certificate of Designation relating to the Series C Junior Participating Preferred Stock
- *3(c)-2 Certificate of Amendment to Restated Certificate of Incorporation as of August 5, 1997
- *3(c)-3 Second Certificate of Amendment to Restated Certificate of Incorporation as of March 27, 1998
- *3(c)-4 Third Certificate of Amendment to Restated Certificate of Incorporation as of April 28, 1999
- *3(d) Amended and Restated By-laws of the Company
- *3(e) Certificate of Designation relating to the New Convertible Preferred Stock
- *3(e)-1 Certificate of Designation relating to the Series C Junior Participating Preferred Stock
- *3(f) Certificate of Incorporation of Ethan Allen Finance Corporation
- *3(g) By-Laws of Ethan Allen Finance Corporation
- *3(h) Certificate of Incorporation of Ethan Allen Manufacturing Corporation
- *3(i) By-Laws of Ethan Allen Manufacturing Corporation

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Exhibit
NUMBER

EXHIBIT

- *4(a) First Amendment to Management Non-Qualified Stock Option Plan
- *4(b) Second Amendment to Management Non-Qualified Stock Option Plan
- *4(c) 1992 Stock Option Plan
- *4(c)-1 First Amendment to 1992 Stock Option Plan
- *4(c)-2 Amended and Restated 1992 Stock Option Plan
- *4(c)-3 First Amendment to Amended and Restated 1992 Stock Option Plan
- *4(c)-4 Second Amendment to Amended and Restated 1992 Stock Option Plan
- *4(d) Management Letter Agreement among the Management Investors and the Company
- *4(e) Management Warrant, issued by the Company to members of the Management of Ethan Allen
- *4(f) Form of Dealer Letter Agreement among Dealer Investors and the Company
- *4(g) Form of Kathwari Warrant, dated June 28, 1989
- *4(j) Form of Indenture relating to the Senior Notes
- *4(j)-1 First Supplemental Indenture, dated March 23, 1995, between Ethan Allen and the First National Bank of Boston for \$75,000,000 8-3/4% Senior Notes due 2007
- *4(k) Credit Agreement among the Company, Ethan Allen and Bankers Trust Company
- *4(k)-1 Amended Credit Agreement among the Company, Ethan Allen and Bankers Trust Company
- *4(k)-2 110,000,000 Senior Secured Revolving Credit Facility dated March 10, 1995 between Ethan Allen and J. P. Morgan Chase & Co.
- *4(k)-3 Amended and Restated Credit Agreement as of December

4, 1996 between Ethan Allen Inc. and the J. P. Morgan Chase & Co.

- *4(k)-4 First Amendment to Amended and Restated Credit Agreement as of August 27, 1997 between Ethan Allen Inc. and the J. P. Morgan Chase & Co.
- *4(k)-5 Second Amendment to Amended and Restated Credit Agreement as of October 20, 1998 between Ethan Allen Inc. and the J. P. Morgan Chase & Co.
- *4(l) Catawba County Industrial Facilities Revenue Bond
- *4(l)-1 Trust Indenture dated as of October 1, 1994 securing \$4,600,000 Industrial Development Revenue Refunding Bonds, Ethan Allen Inc. Series 1994 of the Catawba County Industrial Facilities and Pollution Control Financing Authority
- *4(m) Lease for 2700 Sepulveda Boulevard Torrance, California
- *4(n) Amended and Restated Warrant Agreement, dated March 1, 1991, among Green Mountain Holding Corporation and First Trust National Association
- *4(o) Exchange Notes Warrant Transfer Agreement
- *4(p) Warrant (Earned) to purchase shares of the Company's Common Stock dated March 24, 1993
- *4(q) Warrant (Earned-In) to purchase shares of the Company's Common Stock, dated March 23, 1993
- *4(r) Recapitalization Agreement among the Company, General Electric Capital Corporation, Smith Barney Inc., Chemical Fund Investments, Inc., Legend Capital Group, Inc., Legend Capital International Ltd., Castle Harlan, Inc., M. Farooq Kathwari, the Ethan Allen Retirement Program and other stockholders named on the signature pages thereto, dated March 24, 1993
- *4(s) Preferred Stock and Common Stock Subscription Agreement, dated March 24, 1993, among the Company, General Electric Capital Corporation, and Smith Barney Inc.
- *4(t) Security Agreement, dated March 10, 1995, between Ethan Allen Inc. and J. P. Morgan Chase & Co.
- *4(u) Rights Agreement, dated July 26, 1996, between the Company and Harris Trust and Savings Bank
- *4(v) Registration Rights Agreement, dated March 28, 1997, between the Company and Carriage House Interiors of Colorado, Inc.
- *4(w) Credit Agreement, dated August 24, 1999, by and among Ethan Allen Inc., Ethan Allen Interiors Inc., the J. P. Morgan Chase & Co., Fleet Bank, N.A. and Wachovia Bank, N.A.

Exhibit
NUMBER

EXHIBIT

- *10(b) Employment Agreement, dated June 29, 1989, among Mr. Kathwari, the Company and Ethan Allen
- *10(c) Employment Agreement, dated July 27, 1994, among Mr. Kathwari, the Company and Ethan Allen
- *10(d) Restated Directors Indemnification Agreement dated March 1993, among the Company and Ethan Allen and their Directors
- *10(e) Registration Rights Agreement, dated March 1993, by and among Ethan Allen, General Electric Capital Corporation and Smith Barney Inc.
- *10(f) Form of Management Bonus Plan, dated October 30, 1991

- *10(g) Ethan Allen Profit Sharing and 401(k) Retirement Plan
- *10(h) General Electric Capital Corporation Credit Card Program Agreement dated August 25, 1995
- *10(h)-1 First Amendment to Credit Card Program Agreement dated February 22, 2000
- *10(i) Employment Agreement, dated October 28, 1997, between Mr. Kathwari and Ethan Allen Interiors, Inc.
- *10(j) Sales Finance Agreement, dated June 25, 1999, between the Company and MBNA America Bank, N.A.
- *10(k) Amended and Restated Consumer Credit Card Program Agreement, dated February 22, 2000, by and among the Company and Monogram Credit Card Bank of Georgia
- *10(k)-2 Second Amendment to Amended and Restated Consumer Credit Card Program Agreement, dated February 1, 2002, by and among the Company and Monogram Credit Card Bank of Georgia
- 10(l) Employment Agreement, dated August 1, 2002, between Mr. Kathwari and Ethan Allen Interiors, Inc.
- *21 List of wholly-owned subsidiaries of the Company
- 23 Consent of KPMG LLP

* Incorporated by reference to the exhibits filed with: the Registration Statement on Form S-1 of the Company and Ethan Allen Inc. filed with the Security Exchange Commission (the "SEC") on March 16, 1993; the Registration Statement on Form S-3 of the Company filed with the SEC on May 21, 1997; the Annual Report on Form 10-K of the Company and Ethan Allen Inc. filed with the SEC on September 24, 1993; the Current Report on Form 8-K of the Company and Ethan Allen Inc. filed with the SEC on July 3, 1996; the Quarterly Report on Form 10-Q of the Company and Ethan Allen Inc. filed with the SEC on February 13, 1997; the Quarterly Report on Form 10-Q of the Company and Ethan Allen Inc. filed with the SEC on November 14, 1997; the Quarterly Report on Form 10-Q of the Company and Ethan Allen Inc. filed with the SEC on February 12, 1999; the Quarterly Report on Form 10-Q of the Company and Ethan Allen Inc. filed with the SEC on May 13, 1999; the Quarterly Report on Form 10-Q of the Company and Ethan Allen Inc. filed with the SEC on February 14, 2000; the Annual Report on Form 10-K of the Company and Ethan Allen Inc. filed with the SEC on September 13, 2000; the Quarterly Report on Form 10-Q of the Company and Ethan Allen Inc. filed with the SEC on May 13, 2002; and the Registration Statement on Form S-3 of the Company, Ethan Allen, Ethan Allen Manufacturing Corporation, Ethan Allen Finance Corporation and Andover Wood Products Inc. filed with the SEC on October 23, 1994 and all supplements thereto.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY
 SCHEDULE II - VALUATION AND QUALIFYING
 ACCOUNTS AS OF AND FOR THE FISCAL YEARS ENDED JUNE 30,
 2002, 2001 AND 2000
 (DOLLARS IN THOUSANDS)

<TABLE>
 <CAPTION>

BALANCE AT	BALANCE AT	ADDITIONS	ADJUSTMENTS	
END OF	BEGINNING	CHARGED TO	AND/OR	
ADJUSTMENTS	OF PERIOD	INCOME	DEDUCTIONS	
<S>	<C>	<C>	<C>	<C>
Accounts Receivable				
Sales discounts, sales returns and				

allowance for doubtful accounts:					
2,019	June 30, 2002	\$ 2,679	\$ (660)	\$ -	\$
2,679	June 30, 2001	\$ 2,751	\$ (22)	\$ (50)	\$
2,751	June 30, 2000	\$ 2,460	\$ 439	\$ (148)	\$

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SIGNATURES

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

ETHAN ALLEN INTERIORS INC.
(Registrant)

By /S/ M. FAROOQ KATHWARI

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

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SIGNATURES

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

/S/ M. FAROOQ KATHWARI Chairman, Chief Executive
----- Officer and Director
(M. Farooq Kathwari)

/S/ CLINTON A. CLARK Director

(Clinton A. Clark)

/S/ KRISTIN GAMBLE Director

(Kristin Gamble)

/S/ HORACE MCDONELL Director

(Horace McDonell)

/S/ EDWARD H. MEYER Director

(Edward H. Meyer)

/S/ WILLIAM W. SPRAGUE

Director

(William W. Sprague)

/S/ FRANK G. WISNER

Director

(Frank G. Wisner)

/S/ EDWARD D. TEPLITZ

Chief Financial Officer

(Edward D. Teplitz)

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

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

- (1) I have reviewed the June 30, 2002 annual report on Form 10-K filed by Ethan Allen Interiors Inc. (the "Company");
- (2) Based on my knowledge, this annual 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 annual report;
- (3) Based on my knowledge, the financial statements and other financial information included in this annual report fairly present, in all material respects, the financial condition, results of operations and cash flows of the Company as of and for the periods presented in this annual report.

/S/ M. FAROOQ KATHWARI

Chairman, Chief Executive
Officer and Director

(M. Farooq Kathwari)

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

I, Edward D. Teplitz, do hereby certify that:

- (1) I have reviewed the June 30, 2002 annual report on Form 10-K filed by Ethan Allen Interiors Inc. (the "Company");
- (2) Based on my knowledge, this annual 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 annual report;
- (3) Based on my knowledge, the financial statements and other financial information included in this annual report fairly present, in all material respects, the financial condition, results of operations and cash flows of the Company as of and for the periods presented in this annual report.

/S/ EDWARD D. TEPLITZ

Chief Financial Officer

(Edward D. Teplitz)

EXHIBIT 10 (1)

EMPLOYMENT AGREEMENT

This Agreement (this "Agreement"), dated as of August 1, 2002, and effective as of July 1, 2002, is made by and between Ethan Allen Interiors Inc., a Delaware corporation (the "Corporation") and its subsidiary, Ethan Allen Inc., a Delaware corporation and a wholly owned subsidiary of the Corporation (the "Subsidiary") and M. Farooq Kathwari (the "Executive").

RECITALS

1. The Executive is Chairman of the Board of Directors of the Corporation and of the Subsidiary, and is currently employed as the Chief Executive Officer and the President of the Corporation and the Subsidiary.

2. The employment of the Executive by the Corporation was previously subject to an employment agreement dated July 27, 1994 (the "1994 Agreement"), and is currently subject to an employment agreement dated October 28, 1997 (the "1997 Employment Agreement").

3. The Corporation desires to continue the services of the Executive as Chairman of the Board of Directors of the Corporation and the Subsidiary and the employment of the Executive with the Corporation and the Subsidiary and to enter into a new agreement embodying the terms of those continued relationships.

4. The Executive is willing to continue to serve as Chairman of the Board of Directors of the Corporation and the Subsidiary and is willing to accept continued employment by each of the Corporation and the Subsidiary on the terms set forth herein.

AGREEMENT

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

1. DEFINITIONS.

1.1. "Affiliate" means any person or entity controlling, controlled by or under common control with the Corporation.

1.2. "Board" means the Board of Directors of the Corporation.

1.3. "Cause" means (a) the Executive is convicted of a felony involving actual dishonesty as against the Corporation or the Subsidiary, or (b) the Executive, in carrying out his duties and responsibilities under this Agreement, is guilty of gross neglect or gross misconduct resulting, in either case, in material economic harm to the Corporation and/or the Subsidiary, and such conduct is not cured within thirty (30) days of the Corporation providing written notice to Executive, unless such act, or failure to act, was believed by the Executive in good faith to be in the best interests of the Corporation and/or the Subsidiary.

1.4. "Commencement Date" has the meaning assigned to it in Section 3.

1.5. "Date of Termination" means (a) in the case of a termination for which a Notice of Termination is required, the date of actual receipt of such Notice of Termination or, if later, the date specified therein, as the case may be, and (b) in all other cases, the actual date on which the Executive's employment terminates during the Term of Employment.

1.6. "Disability" means the Executive's inability to render, for a period of six consecutive months, services hereunder by reason of permanent disability, as determined by the written medical opinion of an independent medical physician mutually acceptable to the Executive and the Corporation. If the Executive and the Corporation cannot agree as to such an independent medical physician each shall appoint one medical physician and those two physicians shall appoint a third physician who shall make such determination.

1.7. "Good Reason" means and shall be deemed to exist if, without the prior express written consent of the Executive, (a) the Executive is assigned any duties or responsibilities inconsistent in any material respect with the scope of the duties or responsibilities associated with the Executive's titles or positions, as set forth and described in Section 4 of this Agreement; (b) the Executive suffers a reduction in the duties, responsibilities or effective authority associated with his titles and positions as set forth and described in Section 4 of this Agreement; (c) the Executive is not appointed to, or is removed from, the offices or positions provided for in Section 4.1 of this Agreement; (d) the Corporation fails to substantially perform any material term or provision of this Agreement; (e) the Executive's compensation provided for

hereunder is decreased; (f) the Executive's office location is changed to a location more than 50 miles from its location on the date hereof in Danbury, Connecticut; (g) the Corporation fails to obtain the full assumption of this Agreement by a successor entity in accordance with Section 11.2 of this Agreement; (h) the Corporation continually fails to reimburse the Executive for business expenses in accordance with Section 5.3 of this Agreement; (i) the Corporation purports to terminate the Executive's employment for Cause and such purported termination of employment is not effected in accordance with the requirements of this Agreement; (j) the Executive shall cease to serve as a director and Chairman of the Board of Directors of any of the Corporation and the Subsidiary; (k) the Board or the shareholders of the Corporation or the Subsidiary, either or both, as may be required to authorize the same, shall approve (i) any liquidation of the Corporation or the Subsidiary, or the sale of substantially all of the assets of the Corporation and the Subsidiary taken as a whole, or (ii) any merger, consolidation and/or other business combination involving the Corporation or the Subsidiary or any combination of any such transactions (a "Transaction"), other than a Transaction (A) involving only the Corporation and the Subsidiary, or (B) immediately after which the shareholders of the Corporation who were shareholders immediately prior to the transaction continue to own beneficially, directly or indirectly, in substantially similar proportions to those in effect immediately prior to such transaction more than 50% of the then outstanding voting securities of the Corporation or the survivor, as applicable; (l) any Person (as defined below) or group (as such term is defined in Rule 13d-5 of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) of related Persons which is not an Affiliate of the Corporation or the Subsidiary as of the Commencement Date shall beneficially own, directly or indirectly, more than 50% of the then outstanding voting stock of the Corporation or the Subsidiary (for purposes of this Agreement, "Person(s)" means any individual, entity, or other person, as defined in Section 3(a)(9) of the Exchange Act, and as

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used in Sections 13(d) and 14(d) thereof); or (m) the Board or the Corporation shall authorize, approve or engage in any Business Combination with an Interested Person, each as defined in Article Fifth of the Corporation's Restated Certificate of Incorporation; provided that, notwithstanding the foregoing, Good Reason shall not include or be deemed to exist, with regard to the circumstances described in clause (k), (l) or (m), if, with the express prior written consent of Executive, Executive immediately after the occurrence of the circumstances or transactions described in clause (k), (l) or (m) becomes Chairman, Chief Executive Officer and President of the parent corporation or person that owns or controls the Corporation or its successor immediately after such circumstances or transaction. If, at the annual meeting in calendar year 2002 (including any adjournment thereof), the shareholders of the Corporation fail to approve the provisions of this Agreement which are contingent on shareholder approval pursuant to Section 5.2(a)(vii), and the Corporation fails to offer to the Executive, within 45 days following such annual meeting, an amendment of this Agreement which is acceptable to the Executive, then the Executive may resign at any time during the period between the 61st day following such annual meeting and the 150th day following such annual meeting, and such resignation shall be treated as having been for "Good Reason".

1.8. "Retirement" means the termination of the Executive's employment with the Corporation for any reason at any time after (a) the Executive attains age 65 or (b) the Executive meets the requirements for early or regular retirement under the Corporation's retirement policy, assuming for this purpose that he was a participant in such plan.

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

2. EMPLOYMENT. Subject to the terms and provisions set forth in this Agreement, the Corporation hereby employs the Executive during the Term of Employment as the Chief Executive Officer and President of the Corporation, agrees to use its best efforts to cause Executive to be elected by the Corporation's shareholders as a director and Chairman of the Board of the Corporation, and to cause the Executive to be a director and Chairman of the Board of Directors of the Subsidiary during the Term of Employment and agrees to cause the Subsidiary at all times during the Term of Employment to employ the Executive as Chief Executive Officer and President of the Subsidiary, and the Executive hereby accepts such employment. However, nothing in this Agreement shall be construed to require that the Executive be elected as a director of the Corporation's Board of Directors on any date if he is not employed by the Corporation on the election date.

3. COMMENCEMENT DATE AND TERM OF EMPLOYMENT.

(a) The term of employment under this Agreement shall commence retroactively as of July 1, 2002 (the "Commencement Date"), and shall, unless extended as hereinafter provided, terminate on the fifth (5th) anniversary of such date (the "Term of Employment").

(b) On the fifth (5th) anniversary of the Commencement Date and on the sixth (6th) anniversary of the Commencement Date, the Term of

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

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4. POSITIONS, RESPONSIBILITIES AND DUTIES.

4.1. POSITIONS. During the Term of Employment, the Executive shall be employed as, and the Corporation shall at all times cause the Executive to be, the Chief Executive Officer and President of the Corporation and the Subsidiary. In addition to such positions, the Corporation shall use its best efforts to ensure that the Executive is elected by the shareholders of the Corporation to serve as a director of the Corporation during the Term of Employment for a minimum of two successive, staggered three-year terms, as provided in the Corporation's Certificate of Incorporation, and shall use its best efforts to ensure that Executive is the Chairman of the Board of Directors. In such positions, the Executive shall have the duties, responsibilities and authority normally associated with the office and position of chairman, director, chief executive officer and president of a substantial, publicly traded corporation, but in no event shall the Executive's duties, responsibilities and/or effective authority with respect to the Corporation and/or the Subsidiary be less than the duties, responsibilities and effective authority the Executive possessed immediately prior to the date of this Agreement. No other employee of the Corporation or the Subsidiary shall have authority and responsibilities that are equal to or greater than those of the Executive. The Executive shall report solely and directly to the Board and all other officers and other employees of the Subsidiary shall report directly to the Executive or the Executive's designees. No provision of this Section 4.1, however, shall preclude the Board from soliciting information from any officer or employee of the Corporation.

4.2. DUTIES. During the Term of Employment, the Executive shall devote such time as is reasonably necessary to perform the duties associated with his offices and positions as set forth in Section 4.1 and shall use his best efforts to perform faithfully and efficiently the duties and responsibilities contemplated by this Agreement; PROVIDED, HOWEVER, that the Executive shall not be required to perform any duties and responsibilities which would be likely to result in a non-compliance with or violation or breach of any applicable law or regulation. Notwithstanding the foregoing provisions of this Section 4.2, during the Term of Employment, the Executive may devote reasonable time to activities other than those required under this Agreement, including the supervision of his personal investments, and activities involving professional, charitable, educational, religious and similar types of organizations, speaking engagements, membership on the boards of directors of other organizations, and similar type activities, to the extent that such other activities do not inhibit or prohibit the performance of the Executive's duties under this Agreement, or conflict in any material way with the business of the Corporation or the Subsidiary; provided, however, that the Executive shall not serve on the board of any business, or hold any other position with any business without the consent of the Board.

4.3. NON-DISPARAGEMENT. The Executive agrees that, while he is employed by the Corporation, and after his Date of Termination, he shall not make any false, defamatory or disparaging statements about the Corporation, the Subsidiary, any Affiliate, or the officers or directors of the Corporation, the Subsidiary or any Affiliate that are reasonably likely to cause material damage to the Corporation, the Subsidiary, any Affiliate, or the officers or directors of the Corporation, the Subsidiary, or the Affiliates. While the Executive is employed by the Corporation, and after his Date of Termination, the Corporation agrees, on behalf of itself,

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the Subsidiary and the Affiliates, that neither the Corporation, the Subsidiary, the Affiliates, nor the officers or directors of the Corporation, the Subsidiary, or any of the Affiliates shall make any false, defamatory or disparaging statements about the Executive that are reasonably likely to cause material damage to the Executive.

5. COMPENSATION AND OTHER BENEFITS.

5.1. BASE SALARY. During the Term of Employment, the Executive shall receive a base salary ("Base Salary"), payable in equal bi-weekly installments, of, prior to first anniversary of the Commencement Date, \$850,000 per annum. On each anniversary of the Commencement Date, such Base Salary shall be reviewed for increase (but not decrease) in the sole discretion of the Compensation Committee of the Board; PROVIDED, HOWEVER, that such Base Salary shall in any event be increased as of each anniversary of this Agreement, at a rate equal to the percentage increase in the consumer price index for the New York-Northern New Jersey-Long Island, NY-NJ-CT metropolitan local area as reported by the United States Department of Labor (the "CPI") of the year then ended as compared

to the consumer price index for the immediately preceding year. Such increased Base Salary shall then constitute the "Base Salary" for purposes of this Agreement.

5.2. INCENTIVE PAYMENTS. During the Term of Employment, the Executive will be entitled to be paid an incentive bonus (the "Incentive Bonus") and other benefits as described in this Section 5.2.

(a) The Executive shall be entitled to Incentive Bonus payments in accordance with the following:

(i) For the fiscal year ending June 30, 2002, the Executive shall be entitled to an Incentive Bonus determined in accordance with the provisions of Section 5.2 of the 1997 Agreement.

(ii) For the fiscal year ending June 30, 2003, and for each subsequent fiscal year, the Corporation shall pay the Executive an Incentive Bonus equal to two percent (2%) of the amount by which the Corporation's operating income for the year exceeds the Threshold Amount (as defined below).

(iii) For the fiscal year ending June 30, 2003, the "Threshold Amount" shall be \$80,000,000 (eighty million dollars). For fiscal years ending after June 30, 2003, the Threshold Amount shall be 110% of the Threshold Amount for the preceding fiscal year.

(iv) For fiscal years ending after June 30, 2002, the Corporation's operating income for the fiscal year shall be as set forth in the Corporation's financial statements, adjusted by adding thereto the charges, expenses or accruals, if any, charged against such operating income for (1) non-recurring or extraordinary items, (2) Incentive Bonuses under this Agreement, (3) the issuance to the Corporation's executives, managers, employees, dealers and other business associates of capital stock of the Corporation, or the issuance or exercise to or by such persons of options, warrants or other rights to acquire capital stock of the Corporation, or stock appreciation rights of the Corporation or similar equity equivalents, including in respect of the Restricted Stock Agreement and the Option

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Agreements contemplated by this Agreement, and (4) any increased depreciation, amortization or other changes resulting from purchase accounting adjustments (provided, however, that no such adjustments shall be made under this clause (4) with respect to acquisitions occurring prior to the Commencement Date). The calculation of operating income will be confirmed by the Corporation's independent public accountants or any other independent, recognized financial or accounting expert retained by the Compensation Committee.

(v) Notwithstanding the foregoing provisions of this Section 5.2, if the Corporation effects a major acquisition during any fiscal year, the Executive and the Corporation shall negotiate in good faith an appropriate revision to the Threshold Amount set forth in this Section 5.2 to implement the purpose of the Incentive Bonus.

(vi) The Incentive Bonus in respect of any particular fiscal year will be paid upon the earlier to occur of the fifth business day following public filing or disclosure of the Corporation's financial statements for such fiscal year or the 120th day following the end of such fiscal year.

(vii) Notwithstanding the foregoing provisions of this Section 5.2, the Executive's right to any Incentive Bonus amounts under this Agreement for fiscal years beginning on or after the Commencement Date shall be contingent on the Incentive Bonus payments being approved by the shareholders of the Corporation at the Corporation's annual shareholder meeting in calendar year 2002 (including any adjournment thereof); provided, however, that if such Incentive Bonus arrangement is not so approved, the Corporation will offer other additional compensation to the Executive that provides an earnings opportunity that is comparable to that offered by the Incentive Bonus, and the Corporation and the Executive shall negotiate in good faith regarding the structure of such additional compensation and the revisions to this Agreement reflecting such compensation. The failure of the Corporation to offer such replacement compensation within 45 days following the shareholder's vote of non-approval of the Incentive Bonus shall be treated as a decrease in the Executive's compensation under Section 1.7(e).

(b) Effective as of July 1, 2002, 2003, 2004, 2005 and 2006, the Corporation and Executive shall enter into, execute and deliver the Restricted Stock Agreement, in substantially the form of Exhibit A hereto (as amended from time to time in accordance with its terms, the "Restricted Stock Agreement") pursuant to which the Corporation shall grant to the Executive, effective as of each of July 1, 2002, 2003,

2004, 2005 and 2006, 10,500 shares of the Corporation's common stock, par value \$.01 per share ("Common Stock"), for a total of 52,500 shares, under the Corporation's 1992 Stock Option Plan (as amended from time to time in accordance with its terms, the "Plan"), in accordance with the Restricted Stock Agreement in substantially the form set forth in Exhibit A, which shares of Common Stock will be "restricted stock" subject to the Restricted Stock Agreement. Shares of Common Stock under the Restricted Stock Agreement are referred to as the "Restricted Stock" for purposes of this Agreement. For this purpose, Exhibit A-1 hereto is the form of Restricted Stock Agreement for 2002, and Exhibit A-2 hereto is the form of Restricted Stock Agreement for years thereafter.

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(c) The Executive shall be entitled to stock option rights in accordance with the following:

(i) Concurrently with the execution and delivery of this Agreement, the Corporation and Executive shall enter into, execute and deliver the stock option agreements between the Corporation and the Executive, and substantially in the form of Exhibits B, C, and D hereto (the agreements set forth in Exhibits B, C, and D are referred to as the "Option Agreements") pursuant to which the Corporation shall issue to Executive stock options pursuant to this Section 5.2(c) to purchase a total of 1,200,000 shares of Common Stock under the Plan, with the exercise price of a share of stock for the options described in this sentence to be determined in accordance with the applicable Option Agreement. The options issued under this Section 5.2(c)(i) are referred to as the "Options."

(ii) Options to purchase Common Stock to be granted to the Executive by the Corporation under this Agreement will permit the deferred delivery of shares of stock following exercise, as elected by the Executive, pursuant to a deferral arrangement established by the Corporation.

(d) The number of shares subject to any stock awards under this Agreement are specified as of August 1, 2002, and such numbers are to be adjusted for stock splits, stock dividends, reclassifications, recapitalizations and similar events in respect of the Common Stock occurring after that date.

5.3. EXPENSE REIMBURSEMENT. During the Term of Employment, the Executive shall be entitled to receive prompt reimbursement for all usual, customary, and reasonable business-related expenses incurred by the Executive in performing his duties and responsibilities hereunder in accordance with the practices and procedures of the Corporation as in effect and applied immediately prior to the Commencement Date, including without limitation an automobile and driver allowance and/or reimbursement in accordance with past practices, or, if more favorable to the Executive, as in effect at any time thereafter with respect to the Executive or other executives of the Corporation or the Subsidiary.

5.4. VACATION AND FRINGE BENEFITS.

(a) During the Term of Employment, the Corporation shall maintain a \$7 million key man life and disability insurance in respect of the Executive for the benefit of Executive and/or his estate, and shall maintain such insurance so long as the Executive remains a senior executive officer of the Corporation, PROVIDED that the aggregate amount of such insurance coverage shall be reduced if and to the extent necessary to reduce the aggregate annual premium payable by the Corporation to \$35,000. The Executive agrees to cooperate with the Corporation in obtaining such policies and in maintaining the same in full force and effect throughout the Term of Employment.

(b) During the Term of Employment, the Executive shall also be entitled to such paid vacation, fringe benefits and perquisites as provided to the Executive by the Corporation and/or the Subsidiary immediately prior to the Commencement Date or, if more favorable to the Executive, as provided by the Corporation or the Subsidiary at any time thereafter.

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(c) To the extent that the Executive's rights to compensation or benefits under the applicable plan, agreement or other governing document are to be determined based on the Term of Employment under the Prior Employment Agreement, the Term of Employment under this Agreement shall be deemed to be substituted for the Term of Employment under the Prior Employment Agreement.

5.5. OFFICE AND SUPPORT STAFF. Unless the Executive otherwise agrees in writing, during the Term of Employment the Executive shall be entitled to executive secretarial and other administrative assistance of a type and extent,

and to an office or offices (with furnishings and other appointments) of a type and size, at least equal to that provided to the Executive immediately prior to the date of this Agreement.

6. TERMINATION.

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

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

Anything in this Agreement to the contrary notwithstanding, (x) in the event of the termination of the Executive's employment pursuant to this Section 6.1, the Corporation will not, from and after the Date of Termination, be obligated to issue any Restricted Stock or Options, but any vesting or service requirements under any outstanding Options or Restricted Stock granted to the Executive prior to his termination of employment that are associated with the Executive's employment by the Corporation (and any Prior Options, Prior Restricted Stock, and Prior Stock Units, as those terms are defined in Section 12.8) will be deemed to be fully satisfied upon such termination, and (y) the Executive's family shall be entitled to receive benefits at least equal to the most favorable benefits provided by the Corporation to surviving families of

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employees of the Corporation under such plans, programs, practices and policies relating to family death benefits, if any, in accordance with the most favorable plans, programs, practices and policies of the Corporation in effect on the date of the Executive's death with respect to other key employees of the Corporation and their families. Anything in this Agreement to the contrary notwithstanding, the Executive shall be entitled after the Date of Termination due to Disability to receive disability and other benefits at least equal to the most favorable of those provided by the Corporation to disabled employees and/or their families in accordance with such plans, programs, practices and policies relating to disability, if any, in effect at any time during the 90-day period immediately preceding the Date of Termination due to Disability with respect to other key employees of the Corporation and their families.

6.2. TERMINATION BY THE CORPORATION FOR CAUSE. The Corporation may terminate the Executive's employment hereunder for Cause as provided in this Section 6.2. If the Corporation terminates the Executive's employment hereunder for Cause, the Executive shall be entitled to receive:

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

agreements, plans and programs of or made by the Corporation and/or the Subsidiary.

In any case described in this Section 6.2, the Executive shall be given written notice authorized by a vote of at least a majority of the members of the Board that the Corporation intends to terminate the Executive's employment for Cause. Such written notice, given in accordance with Section 6.7 of this Agreement, shall specify the particular act or acts, or failure to act, which is or are the basis for the decision to so terminate the Executive's employment for Cause. The Executive shall be given the opportunity within 30 calendar days of the receipt of such notice to meet with the Board to defend such act or acts, or failure to act, and, if such act or failure to act is correctable, the Executive shall be given 30 business days after such meeting to correct such act or failure to act. If such act or failure to act is not correctable or upon failure of the Executive, within such latter 30 day period, to correct such act or failure to act, the Executive's employment by the Corporation shall automatically be terminated under this Section 6.2 for Cause as of the date determined in Section 1.5 of this Agreement. Anything herein to the contrary notwithstanding, if, following a termination of the Executive's employment by the

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Corporation for Cause based upon the conviction of the Executive for a felony involving actual dishonesty as against the Corporation or the Subsidiary, such conviction is overturned on appeal, the Executive shall be entitled to the payments and benefits that the Executive would have received as a result of a termination of the Executive's employment by the Corporation without Cause. Anything in this Agreement to the contrary notwithstanding, in the event of the termination of the Executive's employment pursuant to this Section 6.2, the Corporation will not, from and after the Date of Termination, be obligated to issue any Restricted Stock or Options, although any outstanding Restricted Stock or Options will not be affected thereby, except as expressly provided in the Restricted Stock Agreement and the Option Agreements.

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

- (a) Base Salary at the rate in effect (as provided for by Section 5.1 of this Agreement) on the Date of Termination through the end of the Term of Employment (which Term of Employment shall include extensions thereof in accordance with Section 3 only to the extent that the deadline for canceling the extension or extensions occurred prior to the date on which the applicable written termination notice was provided, with no cancellation of extension notice filed in accordance with Section 3(b));
- (b) an aggregate amount equal to the two largest Incentive Bonuses or other annual bonuses previously received by Executive from the Corporation not to exceed \$1 million in the aggregate;
- (c) any deferred compensation (including, without limitation, interest or other credits on the deferred amounts) and any accrued vacation pay;
- (d) reimbursement for expenses incurred, but not paid prior to such termination of employment; and
- (e) any other compensation or benefits which may be owed or provided to the Executive in accordance with the terms and provisions of any applicable agreements, plans and programs of or made by the Corporation and/or the Subsidiary.

Anything in this Agreement to the contrary notwithstanding, in the event of the termination of Executive's employment pursuant to this Section 6.3, (x) the Corporation's obligation to issue Restricted Stock under this Agreement and in accordance with the Restricted Stock Agreement will not be terminated or otherwise affected, as if the Term of Employment continued without giving effect to such termination, and any vesting or service requirements under any outstanding Restricted Stock granted to the Executive prior to, at the time of, or after his termination of employment that are associated with the Executive's employment by the

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Corporation (and any Prior Restricted Stock and Prior Stock Units) will be deemed to be fully satisfied upon such termination or, if later, at the time of grant, and (y) any vesting or service requirements under any outstanding Options

granted to the Executive prior to his termination of employment or any Options granted on or after his Date of Termination, that are associated with the Executive's employment by the Corporation (and any Prior Options) will be deemed to be fully satisfied upon such termination or if later, at the time such option is granted, and the options issued to and exercisable by Executive will be exercisable at any time during the three years following such Date of Termination or, for Options granted as of a date after the Date of Termination, three years following the date of grant.

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

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

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

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

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

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

6.7. NOTICE OF TERMINATION. Any termination of the Executive's employment by the Corporation for Cause, any Termination for Good Reason, and any termination of employment by the Executive in connection with a Voluntary

Termination shall be communicated by a notice of termination to the other party hereto given in accordance with Section 12.3 of this Agreement (the "Notice of Termination"). The Notice of Termination shall be given (a) in the case of a termination for Cause, within 90 business days after a director of the Corporation (excluding the Executive) has actual knowledge of the events giving rise to such purported termination, (b) in the case of a Termination for Good Reason, within 180 days of the Executive's having actual knowledge of the event or events constituting Good Reason; and (c) in the case of Voluntary Termination, not later than 150 days prior to the date of termination specified in such notice. Such notice shall (x) indicate the specific termination provision in this Agreement relied upon, (y) set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated, as applicable, and (z) if the termination date is other than the date of receipt of such notice, specify the date on which the Executive's employment is to be terminated (which date shall not be earlier than the date on which such notice is actually given).

6.8. CERTAIN FURTHER PAYMENTS BY THE CORPORATION.

6.8.1. TAX REIMBURSEMENT PAYMENT. Anything in this Agreement to the contrary notwithstanding, in the event that any amount or benefit paid, payable, or to be paid, or distributed, distributable, or to be distributed to or with respect to the Executive by the Corporation, the Subsidiary or any other Affiliate, including Base Salary, Incentive Bonuses, Restricted Stock, Options and any other amounts payable in respect of this Agreement (collectively, the "Covered Payments"), is or becomes, at any time, as a result of (a) any Internal

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Revenue Service claims or assertions, or (b) Section 6.8.2 below or otherwise, subject to the excise tax imposed by or under Section 4999 of the Code (or any similar tax that may hereafter be imposed), and/or any interest or penalties with respect to such excise tax (such excise tax, together with such interest and penalties, are hereinafter collectively, referred to as the "Excise Tax"), the Corporation shall pay to the Executive at the time specified in Section 6.9 below an additional amount (the "Tax Reimbursement Payment") equal to the sum of (a) the amount of the Excise Tax imposed upon the Covered Payments, and (b) an amount equal to the product of (i) any deductions disallowed for federal, state or local income tax purposes because of the inclusion of the Tax Reimbursement Payment in the Executive's adjusted gross income, and (ii) the highest applicable marginal rate of federal, state or local income taxation, respectively, for the calendar year in which the Tax Reimbursement Payment is made or is to be made. However, the Tax Reimbursement Payment will not include any Excise Tax or other tax imposed on or attributable to the Tax Reimbursement Payment itself.

6.8.2. DETERMINING EXCISE TAX. Except as otherwise provided in Section 6.8.1(a), for purposes of determining whether any of the Covered Payments will be subject to the Excise Tax and the amount of such Excise Tax,

- (a) such Covered Payments will be treated as "parachute payments" (within the meaning of Section 280G(b)(2) of the Code) and such payments in excess of the Code Section 280G(b)(3) "base amount" shall be treated as subject to the Excise Tax, unless, and except to the extent that, the Corporation's independent certified public accountants (the "Accountants") or legal counsel reasonably acceptable to the Executive, deliver timely, upon the Executive's request, a written opinion, reasonably satisfactory to the Executive's legal counsel, to the Executive that the Executive has a reasonable basis to claim that the Covered Payments (in whole or in part) (i) do not constitute "parachute payments", (ii) represent reasonable compensation for services actually rendered (within the meaning of Section 280G(b)(4) of the Code) in excess of the "base amount" allocable to such reasonable compensation, or (iii) such "parachute payments" are otherwise not subject to such Excise Tax (with appropriate legal authority, detailed analysis and explanation provided therein by the Accountants); and
- (b) the value of any Covered Payments which are non-cash benefits or deferred payments or benefits shall be determined by the Accountants in accordance with the principles of Section 280G of the Code.

6.8.3. APPLICABLE TAX RATES AND DEDUCTIONS. For purposes of determining the amount of the Tax Reimbursement Payment, the Executive shall be deemed:

- (a) to pay federal, state and/or local income taxes at the highest applicable marginal rate of income taxation for the calendar year in which the Tax Reimbursement Payment is made or is to be made, and
- (b) to have otherwise allowable deductions for federal, state and local income tax purposes at least equal to those disallowed due to the inclusion of the Tax Reimbursement Payment in the Executive's adjusted gross income.

6.8.4. SUBSEQUENT EVENTS. If, pursuant to a written opinion, reasonably satisfactory to the Executive, of the Accountants (or legal counsel reasonably acceptable to the Executive) delivered to the Executive, the Excise Tax is subsequently determined on a reasonable basis and in good faith (other than as a result of a tax contest) to be less than the amount taken into account hereunder in calculating any Tax Reimbursement Payment made, the Executive shall repay to the Corporation the portion of any prior Tax Reimbursement Payment that would not have been paid if such redetermined Excise Tax had been applied in calculating such Tax Reimbursement Payment, plus interest on the amount of such repayment at the mid-term discount rate provided in Section 1274(b)(2)(B) of the Code. Notwithstanding the immediately preceding sentence, if any portion of the Tax Reimbursement Payment to be refunded to the Corporation has been paid to any federal, state or local tax authority, repayment thereof shall not be required until an actual refund or credit of such portion has been made to or obtained by the Executive from such tax authority, and any interest payable to the Corporation shall not exceed the interest received or credited to the Executive by any such tax authority. The Executive shall be fully indemnified by the Corporation for any out-of-pocket costs, expenses or fees attributable to the filing of any refund or other claim. The Executive and the Corporation shall mutually agree upon the course of action to be pursued (and the method of allocating the expenses thereof) if any good faith claim for refund or credit from such tax authority made by the Executive is denied.

Notwithstanding the immediately preceding paragraph, if, in the written opinion of the Executive's tax advisors delivered to the Accountants and the Corporation, the Excise Tax is later determined to exceed the amount taken into account by the Accountants or legal counsel, as the case may be, hereunder at the time any Tax Reimbursement Payment is made by reason of (i) manifest error, (ii) any payment the existence or amount of which could not be or was not determined or known about at the time of any Tax Reimbursement Payment, or (iii) any determination, claim or assertion made by any tax authority that the Excise Tax is or should be greater than the amount of such Excise Tax taken into account previously by the Accountants or legal counsel, as the case may be, or as otherwise previously determined, the Corporation shall make an additional Tax Reimbursement Payment in respect of such excess Excise Tax (which Tax Reimbursement Payment shall include, without limitation, any interest or penalties payable with respect to such excess Excise Tax) at the time specified in Section 6.9 below. With respect to this Section 6.8.4, if any such tax authority makes such a determination, the Executive shall notify the Corporation of such occurrence. If the Corporation obtains (at the Corporation's sole expense) an opinion of legal counsel reasonably satisfactory to the Executive that it is more likely than not that the Executive would succeed in disputing such claim, assertion or determination of such tax authority, the Executive shall, at the sole expense of the Corporation, make a good faith effort to contest such claim, assertion or determination of such tax authority in all relevant administrative proceedings with such tax authority and in any related judicial proceeding (excluding any appeals thereof); PROVIDED, HOWEVER, that if the Executive determines in good faith that the continued contest of any such claim, assertion or determination with such tax authority would have an adverse impact on his overall tax position (which good faith determination shall take into account the magnitude of the amounts involved), then, upon receipt of notice by the Corporation from the Executive to that effect, the Executive shall, without forgoing any right to receive any Tax Reimbursement Payment described in this Section 6.8, have no further obligation to pursue any such contest with any such tax authority. The Executive may, as a condition to pursuing or commencing any contest described in this Section 6.8.4 in any judicial proceedings (which proceedings shall be in a forum chosen at the sole discretion of the

Executive), require the Corporation to advance any amount of tax required to be paid in order to pursue such contest. In conducting any contest described in this Section 6.8.4, the Executive shall use his best efforts to keep the Corporation advised and will permit the Corporation to prepare and suggest appropriate responses and actions that may be reasonably made or taken by the Executive. Notwithstanding the above, the decisions as to such response or actions shall be solely that of the Executive and the Executive shall have the sole right to control the proceeding. The Corporation shall bear all expenses of any proceeding relating to any contest described in this Section 6.8.4, whether incurred by the Corporation or the Executive, including, without limitation, all fees and disbursements of attorneys, accountants and expert witnesses and any additional interest or penalties applicable. Nothing contained in this Agreement shall under any circumstances give the Corporation any right to examine the tax returns or any other records of the Executive.

6.8.5. ELECTION TO ACCELERATE. For purposes of Code sections 280G and 4999, the Executive, in his sole discretion, may elect to have any amounts treated as received in the year of a change in ownership or control or, if later, the first year in which the payment (or payments) are certain to be made without regard to the year in which the payment (or payments) are includible in

income or otherwise received to the extent provided in Prop. Treas. Reg. section 1.280G-1, Q/A-11(c) (issued February 20, 2002) or any successor provision. If the Executive makes any such election, the determination of the Executive's rights to payments under this Section 6.8 and Section 6.9 shall be determined after taking into account such election.

6.9. PAYMENT. Except as otherwise provided in this Agreement, and except with respect to continued payment of Base Salary in accordance with any provisions of this Agreement, any payments to which the Executive shall be entitled under this Section 6 shall be made as promptly as possible following (a) the Date of Termination, (b) the payment of any Covered Payments, or (c) the delivery of the opinion of the Executive's tax advisors, in accordance with Section 6.8.4. If the amount of any payment due to the Executive cannot be finally determined within 90 days after the Date of Termination, such amount shall be estimated on a good faith basis by the Corporation and the estimated amount shall be paid no later than 90 days after such Date of Termination. As soon as practicable thereafter, the final determination of the amount due shall be made and any adjustment requiring a payment to or from the Executive shall be made as promptly as practicable.

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

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

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

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

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

10. CONFIDENTIAL INFORMATION AND NONCOMPETITION.

10.1. CONFIDENTIAL INFORMATION. The Executive shall not, during the Term of Employment and thereafter, without the prior express written consent of the Corporation or the Subsidiary, disclose any confidential information, knowledge or data relating to the Corporation, the Subsidiary or any other Affiliate and their respective businesses, which (a) was obtained by the

Executive in the course of the Executive's employment with the Corporation, and (b) which is not information, knowledge or data otherwise in the public domain (other than by reason of a breach of this provision by the Executive), unless required to do so by a court of law or equity or by any governmental agency or other authority. In no event shall an asserted violation of this Section 10.1 constitute a basis for delaying or withholding the payment of any amounts otherwise payable to the Executive under this Agreement.

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

11. SUCCESSORS.

11.1. THE EXECUTIVE. This Agreement is personal to the Executive and, without the prior express written consent of the Corporation, shall not be assignable by the Executive, except that the Executive's rights to receive any compensation or benefits under this Agreement may be transferred or disposed of pursuant to testamentary disposition, interstate succession or pursuant to a domestic relations order of a court of competent jurisdiction. This Agreement shall inure to the benefit of and be enforceable by the Executive's heirs, beneficiaries and/or legal representatives.

11.2. THE CORPORATION. This Agreement shall inure to the benefit of and be binding upon the Corporation and its successors and assigns. The Corporation shall require any successor to all or substantially all of the business and/or assets of the Corporation or the Subsidiary, whether direct or indirect, by purchase, merger, consolidation, acquisition of stock, or otherwise, by an agreement in form and substance satisfactory to the Executive, expressly to assume and agree to perform this Agreement in the same manner and to the same extent as the Corporation would be required to perform if no such succession had taken place.

12. MISCELLANEOUS.

12.1. APPLICABLE LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, applied without reference to principles of conflict of laws.

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12.2. AMENDMENTS. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

12.3. NOTICES. All notices and other communications hereunder shall be in writing and shall be given by hand-delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:

c/o Ethan Allen Drive
Danbury, Connecticut 06813

If to the Corporation:

c/o Ethan Allen Drive

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

12.4. WITHHOLDING. The Corporation may withhold from any amounts payable under this Agreement such federal, state or local income taxes as shall be required to be withheld pursuant to any applicable law or regulation. If, at any time on or after the Commencement Date, the Executive will recognize taxable income with respect to the awards from the Corporation of Common Stock (regardless of when such awards are made), the Executive may elect to have the Corporation withhold from the shares to be delivered shares sufficient to satisfy all or a portion of such tax withholding requirements.

12.5. SEVERABILITY. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

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

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

12.8. ENTIRE AGREEMENT.

- (a) Upon the commencement of the Term of Employment, this Agreement will contain the entire agreement between the parties concerning the subject matter hereof and will supersede all prior agreements (including without limitation the 1997 Agreement, except

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as otherwise specifically provided in this Agreement), understandings, discussions, negotiations and undertakings, whether written or oral, between the parties with respect to the subject matter hereof, excluding: (i) the Restated Director Indemnification Agreement by and between the Corporation and the Executive; (ii) the Option Agreements and the Restricted Stock Agreement; and (iii) the agreements governing the following awards associated with the Executive's employment by the Corporation that were granted to the Executive prior to Commencement Date: stock options (the "Prior Options"), restricted stock (the "Prior Restricted Stock"), and stock units (the "Prior Stock Units").

- (b) This Agreement shall not affect the Executive's rights to benefits accrued prior to July 1, 2002 and the Executive's rights with respect to Prior Options, Prior Restricted Stock, and Prior Stock Units shall be governed by the respective stock option, restricted stock, and stock unit agreements relating thereto. Notwithstanding the preceding sentence, (i) the Executive's rights with respect to the Prior Options, Prior Restricted Stock, and Prior Stock Units following the Executive's Date of Termination shall be governed by the provisions of Section 6 of this Agreement to the extent such provisions do not adversely affect the Executive's rights under those awards, and (ii) the expiration of the Agreement Term as defined in the 1997 Agreement shall not result in vesting of any Prior Options, Prior Restricted Stock, or Prior Stock Units pursuant to the last paragraph of Section 6.3 of the 1997 Agreement.

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

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

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

EXECUTIVE

/s/ M. Farooq Kathwari

M. Farooq Kathwari

ETHAN ALLEN INTERIORS INC.

By: /s/ Edward Meyer

Edward Meyer

Its: Chairman, Compensation Committee

Exhibit A-1

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2002 RESTRICTED STOCK AGREEMENT

THIS AGREEMENT, dated as of August 1, 2002 (the "Grant Date"), by and between Ethan Allen Interiors, Inc. (the "Company") and M. Farooq Kathwari (the "Executive").

WITNESSETH THAT:

WHEREAS, the Company and Executive have entered into an Employment Agreement, dated as of August 1, 2002 (as amended in accordance with its terms, the "Employment Agreement"); and

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

WHEREAS, the Participant has been selected by the Compensation Committee of the Board of Directors of the Company (the "Committee") to receive an award under the Plan in accordance with the Employment Agreement, and this Restricted Stock Agreement is being entered into pursuant to Section 5.2(b) thereof;

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

1. AWARD. Pursuant to Section 5.2(b) of the Employment Agreement, and subject to the terms of this Agreement and the Employment Agreement, the Executive is granted 10,500 shares of common stock, par value \$.01 per share ("Common Stock") as of the Grant Date (all such shares, collectively, the "Restricted Stock"). The award is subject to Section 6 of the Employment Agreement. Such shares of Restricted Stock may consist, either in whole or in part, of the Company's authorized and unissued Common Stock or shares of the Company's authorized and issued Common Stock reacquired by the Company and held in its Treasury.

2. RESTRICTIONS ON SHARES. During the Restricted Period (as described in paragraph 4):

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

or forfeiture of the shares). The balance credited to the Executive's account shall be distributed to the Executive in cash as soon as practicable after the Executive's termination of employment with the Company and its affiliates for any reason.

3. TRANSFERS AT TERMINATION OF RESTRICTED PERIOD. At the end of the Restricted Period, the certificate representing such share shall be transferred to the Executive (or the Executive's legal representative or heir) free of all legends and restrictions referred to in this Agreement.

4. VESTING AND FORFEITURES. The Restricted Period shall begin on the Grant Date, and end on the third anniversary thereof (the "Vesting Date"). As of the Vesting Date, the amount of such Restricted Stock which will vest will be determined by reference to the Company's TRS Percentile (as defined below) for the three-year period preceding such Vesting Date in accordance with the following schedule:

Company's TRS Percentile for Three-Year Period Prior to Vesting Date	Shares Vested on Such Vesting Date
70% or Higher	10,500
Above 60% to 70%	8,400
Above 50% to 60%	6,300
Above 40% to 50%	4,200
40% and below	0

For purposes of the foregoing schedule, "TRS Percentile" means, for the period in question, the total return to the holders of Common Stock of the Company (including dividends and distributions, and assuming they are reinvested) as compared to the total return to holders of common stock of the companies (including dividends and distributions, and assuming they are reinvested) which comprise the Standard & Poor's 500 during such period, as determined in accordance with recognized financial practices and pursuant to publicly available sources. For this purpose, the price of Ethan Allen Common Stock (but not the price of the stock of other companies which comprise the Standard & Poor's 500) at the beginning and the end of such period shall be equal to the average Fair Market Value (as that term is defined in the Plan) of a share of Common Stock for the days on which the Common Stock is traded on the New York Stock Exchange during the 60-calendar-day periods ending on the Grant Date and the third anniversary of the Grant Date, respectively.

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

During the Restricted Period, all certificates evidencing the Restricted Stock will be imprinted with the following legend: "The securities evidenced by this certificate are subject to the transfer restrictions, forfeitures and other provisions of the Restricted Stock Agreement, dated as of August 1, 2002, between Ethan Allen Interiors, Inc. and M. Farooq Kathwari."

5. CHANGE IN CONTROL. Notwithstanding the provisions of paragraph 4, the Restricted Period for all shares of Restricted Stock will end not later than the date of a Change in Control, if the Executive is then employed by the Company and such shares were not previously forfeited in accordance with paragraph 4. For purposes of this Agreement, a "Change in Control" shall occur upon the occurrence of any of the following:

- (a) the Board or the shareholders of the Company or Ethan Allen Inc., a Delaware corporation and a wholly owned subsidiary of the Company (the "Subsidiary"), either or both, as may be required to authorize the same, shall approve (i) any liquidation of the Company or the Subsidiary, or the sale of substantially all of the assets of the Company and the Subsidiary taken as a whole, or (ii) any merger, consolidation and/or other business combination involving the Company or the Subsidiary or any combination of any such transactions (a "Transaction"), other than a Transaction (A) involving only the Company and the Subsidiary, or (B) immediately after which the shareholders of the Company who were shareholders immediately prior to the transaction continue to own beneficially, directly or indirectly, in substantially similar proportions to those in effect immediately prior to such transaction more than 50% of the then outstanding voting securities of the Company or the survivor or any parent thereof, as applicable;
- (b) any Person (as defined below) or group (as such term is defined in Rule 13d-5 of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) of related Persons (other than the Company, an employee benefit plan sponsored by the Company or the Subsidiary, or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportion as their ownership of the stock of

the Company) shall beneficially own, directly or indirectly, more than 50% of the then outstanding voting stock of the Company or the Subsidiary (for purposes of this Agreement, "Person(s)" means any individual, entity, or other person, as defined in Section 3(a)(9) of the Exchange Act, and as used in Sections 13(d) and 14(d) thereof; or

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

6. ADJUSTMENTS TO NUMBER OF SHARES. Subject to the following provisions of this paragraph 6 in the event of any change in the outstanding shares of common stock of the Company by reason of any stock dividend, split, spinoff, recapitalization or other similar change, the terms and the number of shares of any outstanding Restricted Stock shall be equitably adjusted by the Company to the extent that such adjustment is necessary to preserve the benefit of this Agreement for the Executive and the Company.

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7. AGREEMENT NOT CONTRACT OF EMPLOYMENT. This Agreement does not constitute a contract of employment, and does not give the Executive the right to be retained in the employ of the Company.

8. SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon, and inure to the benefit of, the Company and its successors and assigns, and upon any person acquiring, whether by merger, consolidation, purchase of assets or otherwise, all or substantially all of the Company's assets and business.

9. APPLICABLE LAW. The provisions of this Agreement shall be construed in accordance with the laws of the State of New York, without giving effect to choice of law principles. Notwithstanding any other provision of this Agreement to the contrary, the Company may subject shares of stock transferred pursuant to this Agreement to such conditions, limitations or restrictions as the Company determines to be necessary or desirable to comply with any applicable law or regulation.

10. AMENDMENT. This Agreement may be amended by written agreement of the Executive and the Company, without the consent of any other person.

11. PLAN AMENDMENT. The Plan is hereby amended to permit the award set forth in this agreement, and the officers of the Company are authorized to modify the Plan language to reflect such amendment.

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

/s/ M. Farooq Kathwari

M. Farooq Kathwari

ETHAN ALLEN INTERIORS INC.

/s/ Edward Meyer

By: Edward Meyer
Its: Chairman, Compensation Committee

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Exhibit A-2

RESTRICTED STOCK AGREEMENT

THIS AGREEMENT, dated as of July 1, 2003 (the "Agreement Date"), by and between Ethan Allen Interiors, Inc. (the "Company") and M. Farooq Kathwari (the "Executive").

WITNESSETH THAT:

WHEREAS, the Company and Executive have entered into an Employment Agreement, dated as of August 1, 2002 (as amended in accordance with its terms,

the "Employment Agreement"); and

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

WHEREAS, the Participant has been selected by the Compensation Committee of the Board of Directors of the Company (the "Committee") to receive an award under the Plan in accordance with the Employment Agreement, and this Restricted Stock Agreement is being entered into pursuant to Section 5.2(b) thereof;

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

1. AWARD. Pursuant to Section 5.2(b) of the Employment Agreement, and subject to the terms of this Agreement and the Employment Agreement, the Executive is granted as of July 1, 2003 (the "Grant Date"), 10,500 shares of common stock, par value \$.01 per share ("Common Stock") as of the Grant Date (all such shares, collectively, the "Restricted Stock"). The award is subject to Section 6 of the Employment Agreement. Such shares of Restricted Stock may consist, either in whole or in part, of the Company's authorized and unissued Common Stock or shares of the Company's authorized and issued Common Stock reacquired by the Company and held in its Treasury.

2. RESTRICTIONS ON SHARES. During the Restricted Period (as described in paragraph 4):

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

3. TRANSFERS AT TERMINATION OF RESTRICTED PERIOD. At the end of the Restricted Period, the certificate representing such share shall be transferred to the Executive (or the Executive's legal representative or heir) free of all legends and restrictions referred to in this Agreement.

4. VESTING AND FORFEITURES. The Restricted Period shall begin on the Grant Date, and end on the third anniversary thereof (the "Vesting Date"). As of the Vesting Date, the amount of such Restricted Stock which will vest will be determined by reference to the Company's TRS Percentile (as defined below) for the three-year period preceding such Vesting Date in accordance with the following schedule:

Company's TRS Percentile for Three-Year Period Prior to Vesting Date	Shares Vested on Such Vesting Date
70% or Higher	10,500
Above 60% to 70%	8,400
Above 50% to 60%	6,300
Above 40% to 50%	4,200
40% and below	0

For purposes of the foregoing schedule, "TRS Percentile" means, for the period in question, the total return to the holders of Common Stock of the Company

(including dividends and distributions, and assuming they are reinvested) as compared to the total return to holders of common stock of the companies (including dividends and distributions, and assuming they are reinvested) which comprise the Standard & Poor's 500 during such period, as determined in accordance with recognized financial practices and pursuant to publicly available sources. For this purpose, the price of Ethan Allen Common Stock (but not the price of the stock of other companies which comprise the Standard & Poor's 500) at the beginning and the end of such period shall be equal to the average Fair Market Value (as that term is defined in the Plan) of a share of Common Stock for the days on which the Common Stock is traded on the New York Stock Exchange during the 60-calendar-day periods ending on the Grant Date and the third anniversary of the date of the Grant Date, respectively.

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

During the Restricted Period, all certificates evidencing the Restricted Stock will be imprinted with the following legend: "The securities evidenced by this certificate are subject to the transfer restrictions, forfeitures and other provisions of the Restricted Stock Agreement, dated as of August 1, 2002, between Ethan Allen Interiors, Inc. and M. Farooq Kathwari."

5. CHANGE IN CONTROL. Notwithstanding the provisions of paragraph 4, the Restricted Period for all shares of Restricted Stock will end not later than the date of a Change in Control, if the Executive is then employed by the Company and such shares were not previously forfeited in accordance with paragraph 4. For purposes of this Agreement, a "Change in Control" shall occur upon the occurrence of any of the following:

- (a) the Board or the shareholders of the Company or Ethan Allen Inc., a Delaware corporation and a wholly owned subsidiary of the Company (the "Subsidiary"), either or both, as may be required to authorize the same, shall approve (i) any liquidation of the Company or the Subsidiary, or the sale of substantially all of the assets of the Company and the Subsidiary taken as a whole, or (ii) any merger, consolidation and/or other business combination involving the Company or the Subsidiary or any combination of any such transactions (a "Transaction"), other than a Transaction (A) involving only the Company and the Subsidiary, or (B) immediately after which the shareholders of the Company who were shareholders immediately prior to the transaction continue to own beneficially, directly or indirectly, in substantially similar proportions to those in effect immediately prior to such transaction more than 50% of the then outstanding voting securities of the Company or the survivor or any parent thereof, as applicable;
- (b) any Person (as defined below) or group (as such term is defined in Rule 13d-5 of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) of related Persons (other than the Company, an employee benefit plan sponsored by the Company or the Subsidiary, or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportion as their ownership of the stock of the Company) shall beneficially own, directly or indirectly, more than 50% of the then outstanding voting stock of the Company or the Subsidiary (for purposes of this Agreement, "Person(s)" means any individual, entity, or other person, as defined in Section 3(a)(9) of the Exchange Act, and as used in Sections 13(d) and 14(d) thereof; or
- (c) the Board or the Company shall authorize, approve or engage in any Business Combination with an Interested Person, each as defined in Article Fifth of the Company's Restated Certificate of Incorporation.

6. ADJUSTMENTS TO NUMBER OF SHARES. Subject to the following provisions of this paragraph 6 in the event of any change in the outstanding shares of common stock of the Company by reason of any stock dividend, split, spinoff, recapitalization or other similar change, the terms and the number of shares of any outstanding Restricted Stock shall be equitably adjusted by the Company to the extent that such adjustment is necessary to preserve the benefit of this Agreement for the Executive and the Company.

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7. AGREEMENT NOT CONTRACT OF EMPLOYMENT. This Agreement does not constitute a contract of employment, and does not give the Executive the right to be retained in the employ of the Company.

8. SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon, and inure to the benefit of, the Company and its successors and assigns, and upon any person acquiring, whether by merger, consolidation, purchase of assets or

otherwise, all or substantially all of the Company's assets and business.

9. APPLICABLE LAW. The provisions of this Agreement shall be construed in accordance with the laws of the State of New York, without giving effect to choice of law principles. Notwithstanding any other provision of this Agreement to the contrary, the Company may subject shares of stock transferred pursuant to this Agreement to such conditions, limitations or restrictions as the Company determines to be necessary or desirable to comply with any applicable law or regulation.

10. AMENDMENT. This Agreement may be amended by written agreement of the Executive and the Company, without the consent of any other person.

11. PLAN AMENDMENT. The Plan is hereby amended to permit the award set forth in this agreement, and the officers of the Company are authorized to modify the Plan language to reflect such amendment.

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

/s/ M. Farooq Kathwari

M. Farooq Kathwari

ETHAN ALLEN INTERIORS INC.

/s/ Edward Meyer

By: Edward Meyer
Its: Chairman, Compensation Committee

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Exhibit A-3

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RESTRICTED STOCK AGREEMENT

THIS AGREEMENT, dated as of July 1, 2004 (the "Agreement Date"), by and between Ethan Allen Interiors, Inc. (the "Company") and M. Farooq Kathwari (the "Executive").

WITNESSETH THAT:

WHEREAS, the Company and Executive have entered into an Employment Agreement, dated as of August 1, 2002 (as amended in accordance with its terms, the "Employment Agreement"); and

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

WHEREAS, the Participant has been selected by the Compensation Committee of the Board of Directors of the Company (the "Committee") to receive an award under the Plan in accordance with the Employment Agreement, and this Restricted Stock Agreement is being entered into pursuant to Section 5.2(b) thereof;

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

1. AWARD. Pursuant to Section 5.2(b) of the Employment Agreement, and subject to the terms of this Agreement and the Employment Agreement, the Executive is granted as of July 1, 2004 (the "Grant Date"), 10,500 shares of common stock, par value \$.01 per share ("Common Stock") as of the Grant Date (all such shares, collectively, the "Restricted Stock"). The award is subject to Section 6 of the Employment Agreement. Such shares of Restricted Stock may consist, either in whole or in part, of the Company's authorized and unissued Common Stock or shares of the Company's authorized and issued Common Stock reacquired by the Company and held in its Treasury.

2. RESTRICTIONS ON SHARES. During the Restricted Period (as described in paragraph 4):

(a) Shares of Restricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered.

(b) The certificate representing such shares shall be registered in the

name of the Executive shall be deposited with the Company, together with a stock power (in such form as the Company may determine) and shall be imprinted with a legend as referred to in paragraph 4.

(c) Subject to paragraph (d) below, the Executive shall be treated as a stockholder with respect to shares of Restricted Stock, including the right to vote such shares; provided, however, the Executive shall not be entitled to vote shares of Restricted Stock with respect to record dates occurring on or after the date, if any, on which the Executive has forfeited such shares pursuant to paragraph 4.

(d) As of each dividend record date for Company Common Stock occurring on or after the date of grant of shares of Restricted Stock under this Agreement and prior to the date such shares become vested or are forfeited (i) no dividends shall be currently payable to the Executive with respect to such shares; and (ii) an account established by the Company for the benefit of the Executive shall be credited with the amount of dividends which would have been paid with respect to such shares in the absence of clause (i) above). Amounts credited to the account shall be credited with interest at the rate of 5% per year until distribution. The Executive shall be fully vested in all amounts credited to the account balance (regardless of the subsequent vesting or forfeiture of the shares). The balance credited to the Executive's account shall be distributed to the Executive in cash as soon as practicable after the Executive's termination of employment with the Company and its affiliates for any reason.

3. TRANSFERS AT TERMINATION OF RESTRICTED PERIOD. At the end of the Restricted Period, the certificate representing such share shall be transferred to the Executive (or the Executive's legal representative or heir) free of all legends and restrictions referred to in this Agreement.

4. VESTING AND FORFEITURES. The Restricted Period shall begin on the Grant Date, and end on the third anniversary thereof (the "Vesting Date"). As of the Vesting Date, the amount of such Restricted Stock which will vest will be determined by reference to the Company's TRS Percentile (as defined below) for the three-year period preceding such Vesting Date in accordance with the following schedule:

Company's TRS Percentile for Three-Year Period Prior to Vesting Date	Shares Vested on Such Vesting Date
70% or Higher	10,500
Above 60% to 70%	8,400
Above 50% to 60%	6,300
Above 40% to 50%	4,200
40% and below	0

For purposes of the foregoing schedule, "TRS Percentile" means, for the period in question, the total return to the holders of Common Stock of the Company (including dividends and distributions, and assuming they are reinvested) as compared to the total return to holders of common stock of the companies (including dividends and distributions, and assuming they are reinvested) which comprise the Standard & Poor's 500 during such period, as determined in accordance with recognized financial practices and pursuant to publicly available sources. For this purpose, the price of Ethan Allen Common Stock (but not the price of the stock of other companies which comprise the Standard & Poor's 500) at the beginning and the end of such period shall be equal to the average Fair Market Value (as that term is defined in the Plan) of a share of Common Stock for the days on which the Common Stock is traded on the New York Stock Exchange during the 60-calendar-day periods ending on the Grant Date and the third anniversary of the date of the Grant Date, respectively.

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

During the Restricted Period, all certificates evidencing the Restricted Stock will be imprinted with the following legend: "The securities evidenced by this certificate are subject to the transfer restrictions, forfeitures and other provisions of the Restricted Stock Agreement, dated as of August 1, 2002, between Ethan Allen Interiors, Inc. and M. Farooq Kathwari."

5. CHANGE IN CONTROL. Notwithstanding the provisions of paragraph 4, the Restricted Period for all shares of Restricted Stock will end not later than the date of a Change in Control, if the Executive is then employed by the

Company and such shares were not previously forfeited in accordance with paragraph 4. For purposes of this Agreement, a "Change in Control" shall occur upon the occurrence of any of the following:

- (a) the Board or the shareholders of the Company or Ethan Allen Inc., a Delaware corporation and a wholly owned subsidiary of the Company (the "Subsidiary"), either or both, as may be required to authorize the same, shall approve (i) any liquidation of the Company or the Subsidiary, or the sale of substantially all of the assets of the Company and the Subsidiary taken as a whole, or (ii) any merger, consolidation and/or other business combination involving the Company or the Subsidiary or any combination of any such transactions (a "Transaction"), other than a Transaction (A) involving only the Company and the Subsidiary, or (B) immediately after which the shareholders of the Company who were shareholders immediately prior to the transaction continue to own beneficially, directly or indirectly, in substantially similar proportions to those in effect immediately prior to such transaction more than 50% of the then outstanding voting securities of the Company or the survivor or any parent thereof, as applicable;
- (b) any Person (as defined below) or group (as such term is defined in Rule 13d-5 of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) of related Persons (other than the Company, an employee benefit plan sponsored by the Company or the Subsidiary, or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportion as their ownership of the stock of the Company) shall beneficially own, directly or indirectly, more than 50% of the then outstanding voting stock of the Company or the Subsidiary (for purposes of this Agreement, "Person(s)" means any individual, entity, or other person, as defined in Section 3(a)(9) of the Exchange Act, and as used in Sections 13(d) and 14(d) thereof; or
- (c) the Board or the Company shall authorize, approve or engage in any Business Combination with an Interested Person, each as defined in Article Fifth of the Company's Restated Certificate of Incorporation.

6. ADJUSTMENTS TO NUMBER OF SHARES. Subject to the following provisions of this paragraph 6 in the event of any change in the outstanding shares of common stock of the Company by reason of any stock dividend, split, spinoff, recapitalization or other similar change, the terms and the number of shares of any outstanding Restricted Stock shall be equitably adjusted by the Company to the extent that such adjustment is necessary to preserve the benefit of this Agreement for the Executive and the Company.

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7. AGREEMENT NOT CONTRACT OF EMPLOYMENT. This Agreement does not constitute a contract of employment, and does not give the Executive the right to be retained in the employ of the Company.

8. SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon, and inure to the benefit of, the Company and its successors and assigns, and upon any person acquiring, whether by merger, consolidation, purchase of assets or otherwise, all or substantially all of the Company's assets and business.

9. APPLICABLE LAW. The provisions of this Agreement shall be construed in accordance with the laws of the State of New York, without giving effect to choice of law principles. Notwithstanding any other provision of this Agreement to the contrary, the Company may subject shares of stock transferred pursuant to this Agreement to such conditions, limitations or restrictions as the Company determines to be necessary or desirable to comply with any applicable law or regulation.

10. AMENDMENT. This Agreement may be amended by written agreement of the Executive and the Company, without the consent of any other person.

11. PLAN AMENDMENT. The Plan is hereby amended to permit the award set forth in this agreement, and the officers of the Company are authorized to modify the Plan language to reflect such amendment.

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

/s/ M. Farooq Kathwari

M. Farooq Kathwari

/s/ Edward Meyer

By: Edward Meyer
Its: Chairman, Compensation Committee

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Exhibit A-4

RESTRICTED STOCK AGREEMENT

THIS AGREEMENT, dated as of July 1, 2005 (the "Agreement Date"), by and between Ethan Allen Interiors, Inc. (the "Company") and M. Farooq Kathwari (the "Executive").

WITNESSETH THAT:

WHEREAS, the Company and Executive have entered into an Employment Agreement, dated as of August 1, 2002 (as amended in accordance with its terms, the "Employment Agreement"); and

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

WHEREAS, the Participant has been selected by the Compensation Committee of the Board of Directors of the Company (the "Committee") to receive an award under the Plan in accordance with the Employment Agreement, and this Restricted Stock Agreement is being entered into pursuant to Section 5.2(b) thereof;

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

1. AWARD. Pursuant to Section 5.2(b) of the Employment Agreement, and subject to the terms of this Agreement and the Employment Agreement, the Executive is granted as of July 1, 2005 (the "Grant Date"), 10,500 shares of common stock, par value \$.01 per share ("Common Stock") as of the Grant Date (all such shares, collectively, the "Restricted Stock"). The award is subject to Section 6 of the Employment Agreement. Such shares of Restricted Stock may consist, either in whole or in part, of the Company's authorized and unissued Common Stock or shares of the Company's authorized and issued Common Stock reacquired by the Company and held in its Treasury.

2. RESTRICTIONS ON SHARES. During the Restricted Period (as described in paragraph 4):

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

3. TRANSFERS AT TERMINATION OF RESTRICTED PERIOD. At the end of the Restricted Period, the certificate representing such share shall be transferred

to the Executive (or the Executive's legal representative or heir) free of all legends and restrictions referred to in this Agreement.

4. VESTING AND FORFEITURES. The Restricted Period shall begin on the Grant Date, and end on the third anniversary thereof (the "Vesting Date"). As of the Vesting Date, the amount of such Restricted Stock which will vest will be determined by reference to the Company's TRS Percentile (as defined below) for the three-year period preceding such Vesting Date in accordance with the following schedule:

Company's TRS Percentile for Three-Year Period Prior to Vesting Date	Shares Vested on Such Vesting Date
70% or Higher	10,500
Above 60% to 70%	8,400
Above 50% to 60%	6,300
Above 40% to 50%	4,200
40% and below	0

For purposes of the foregoing schedule, "TRS Percentile" means, for the period in question, the total return to the holders of Common Stock of the Company (including dividends and distributions, and assuming they are reinvested) as compared to the total return to holders of common stock of the companies (including dividends and distributions, and assuming they are reinvested) which comprise the Standard & Poor's 500 during such period, as determined in accordance with recognized financial practices and pursuant to publicly available sources. For this purpose, the price of Ethan Allen Common Stock (but not the price of the stock of other companies which comprise the Standard & Poor's 500) at the beginning and the end of such period shall be equal to the average Fair Market Value (as that term is defined in the Plan) of a share of Common Stock for the days on which the Common Stock is traded on the New York Stock Exchange during the 60-calendar-day periods ending on the Grant Date and the third anniversary of the date of the Grant Date, respectively.

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

During the Restricted Period, all certificates evidencing the Restricted Stock will be imprinted with the following legend: "The securities evidenced by this certificate are subject to the transfer restrictions, forfeitures and other provisions of the Restricted Stock Agreement, dated as of August 1, 2002, between Ethan Allen Interiors, Inc. and M. Farooq Kathwari."

5. CHANGE IN CONTROL. Notwithstanding the provisions of paragraph 4, the Restricted Period for all shares of Restricted Stock will end not later than the date of a Change in Control, if the Executive is then employed by the Company and such shares were not previously forfeited in accordance with paragraph 4. For purposes of this Agreement, a "Change in Control" shall occur upon the occurrence of any of the following:

- (a) the Board or the shareholders of the Company or Ethan Allen Inc., a Delaware corporation and a wholly owned subsidiary of the Company (the "Subsidiary"), either or both, as may be required to authorize the same, shall approve (i) any liquidation of the Company or the Subsidiary, or the sale of substantially all of the assets of the Company and the Subsidiary taken as a whole, or (ii) any merger, consolidation and/or other business combination involving the Company or the Subsidiary or any combination of any such transactions (a "Transaction"), other than a Transaction (A) involving only the Company and the Subsidiary, or (B) immediately after which the shareholders of the Company who were shareholders immediately prior to the transaction continue to own beneficially, directly or indirectly, in substantially similar proportions to those in effect immediately prior to such transaction more than 50% of the then outstanding voting securities of the Company or the survivor or any parent thereof, as applicable;
- (b) any Person (as defined below) or group (as such term is defined in Rule 13d-5 of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) of related Persons (other than the Company, an employee benefit plan sponsored by the Company or the Subsidiary, or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportion as their ownership of the stock of the Company) shall beneficially own, directly or indirectly, more than 50% of the then outstanding voting stock of the Company or the Subsidiary (for purposes of this Agreement, "Person(s)" means any individual, entity, or other person, as defined in Section 3(a)(9) of the Exchange Act, and as used in Sections 13(d) and 14(d) thereof; or

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

6. ADJUSTMENTS TO NUMBER OF SHARES. Subject to the following provisions of this paragraph 6 in the event of any change in the outstanding shares of common stock of the Company by reason of any stock dividend, split, spinoff, recapitalization or other similar change, the terms and the number of shares of any outstanding Restricted Stock shall be equitably adjusted by the Company to the extent that such adjustment is necessary to preserve the benefit of this Agreement for the Executive and the Company.

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7. AGREEMENT NOT CONTRACT OF EMPLOYMENT. This Agreement does not constitute a contract of employment, and does not give the Executive the right to be retained in the employ of the Company.

8. SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon, and inure to the benefit of, the Company and its successors and assigns, and upon any person acquiring, whether by merger, consolidation, purchase of assets or otherwise, all or substantially all of the Company's assets and business.

9. APPLICABLE LAW. The provisions of this Agreement shall be construed in accordance with the laws of the State of New York, without giving effect to choice of law principles. Notwithstanding any other provision of this Agreement to the contrary, the Company may subject shares of stock transferred pursuant to this Agreement to such conditions, limitations or restrictions as the Company determines to be necessary or desirable to comply with any applicable law or regulation.

10. AMENDMENT. This Agreement may be amended by written agreement of the Executive and the Company, without the consent of any other person.

11. PLAN AMENDMENT. The Plan is hereby amended to permit the award set forth in this agreement, and the officers of the Company are authorized to modify the Plan language to reflect such amendment.

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

/s/ M. Farooq Kathwari

M. Farooq Kathwari

ETHAN ALLEN INTERIORS INC.

/s/ Edward Meyer

By: Edward Meyer
Its: Chairman, Compensation Committee

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Exhibit A-5

RESTRICTED STOCK AGREEMENT

THIS AGREEMENT, dated as of July 1, 2006 (the "Agreement Date"), by and between Ethan Allen Interiors, Inc. (the "Company") and M. Farooq Kathwari (the "Executive").

WITNESSETH THAT:

WHEREAS, the Company and Executive have entered into an Employment Agreement, dated as of August 1, 2002 (as amended in accordance with its terms, the "Employment Agreement"); and

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

WHEREAS, the Participant has been selected by the Compensation Committee of the Board of Directors of the Company (the "Committee") to receive an award under the Plan in accordance with the Employment Agreement, and this

Restricted Stock Agreement is being entered into pursuant to Section 5.2(b) thereof;

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

1. AWARD. Pursuant to Section 5.2(b) of the Employment Agreement, and subject to the terms of this Agreement and the Employment Agreement, the Executive is granted as of July 1, 2006 (the "Grant Date"), 10,500 shares of common stock, par value \$.01 per share ("Common Stock") as of the Grant Date (all such shares, collectively, the "Restricted Stock"). The award is subject to Section 6 of the Employment Agreement. Such shares of Restricted Stock may consist, either in whole or in part, of the Company's authorized and unissued Common Stock or shares of the Company's authorized and issued Common Stock reacquired by the Company and held in its Treasury.

2. RESTRICTIONS ON SHARES. During the Restricted Period (as described in paragraph 4):

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

3. TRANSFERS AT TERMINATION OF RESTRICTED PERIOD. At the end of the Restricted Period, the certificate representing such share shall be transferred to the Executive (or the Executive's legal representative or heir) free of all legends and restrictions referred to in this Agreement.

4. VESTING AND FORFEITURES. The Restricted Period shall begin on the Grant Date, and end on the third anniversary thereof (the "Vesting Date"). As of the Vesting Date, the amount of such Restricted Stock which will vest will be determined by reference to the Company's TRS Percentile (as defined below) for the three-year period preceding such Vesting Date in accordance with the following schedule:

Company's TRS Percentile for Three-Year Period Prior to Vesting Date	Shares Vested on Such Vesting Date
70% or Higher	10,500
Above 60% to 70%	8,400
Above 50% to 60%	6,300
Above 40% to 50%	4,200
40% and below	0

For purposes of the foregoing schedule, "TRS Percentile" means, for the period in question, the total return to the holders of Common Stock of the Company (including dividends and distributions, and assuming they are reinvested) as compared to the total return to holders of common stock of the companies (including dividends and distributions, and assuming they are reinvested) which comprise the Standard & Poor's 500 during such period, as determined in accordance with recognized financial practices and pursuant to publicly available sources. For this purpose, the price of Ethan Allen Common Stock (but

not the price of the stock of other companies which comprise the Standard & Poor's 500) at the beginning and the end of such period shall be equal to the average Fair Market Value (as that term is defined in the Plan) of a share of Common Stock for the days on which the Common Stock is traded on the New York Stock Exchange during the 60-calendar-day periods ending on the Grant Date and the third anniversary of the date of the Grant Date, respectively.

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

During the Restricted Period, all certificates evidencing the Restricted Stock will be imprinted with the following legend: "The securities evidenced by this certificate are subject to the transfer restrictions, forfeitures and other provisions of the Restricted Stock Agreement, dated as of August 1, 2002, between Ethan Allen Interiors, Inc. and M. Farooq Kathwari."

5. CHANGE IN CONTROL. Notwithstanding the provisions of paragraph 4, the Restricted Period for all shares of Restricted Stock will end not later than the date of a Change in Control, if the Executive is then employed by the Company and such shares were not previously forfeited in accordance with paragraph 4. For purposes of this Agreement, a "Change in Control" shall occur upon the occurrence of any of the following:

- (a) the Board or the shareholders of the Company or Ethan Allen Inc., a Delaware corporation and a wholly owned subsidiary of the Company (the "Subsidiary"), either or both, as may be required to authorize the same, shall approve (i) any liquidation of the Company or the Subsidiary, or the sale of substantially all of the assets of the Company and the Subsidiary taken as a whole, or (ii) any merger, consolidation and/or other business combination involving the Company or the Subsidiary or any combination of any such transactions (a "Transaction"), other than a Transaction (A) involving only the Company and the Subsidiary, or (B) immediately after which the shareholders of the Company who were shareholders immediately prior to the transaction continue to own beneficially, directly or indirectly, in substantially similar proportions to those in effect immediately prior to such transaction more than 50% of the then outstanding voting securities of the Company or the survivor or any parent thereof, as applicable;
- (b) any Person (as defined below) or group (as such term is defined in Rule 13d-5 of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) of related Persons (other than the Company, an employee benefit plan sponsored by the Company or the Subsidiary, or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportion as their ownership of the stock of the Company) shall beneficially own, directly or indirectly, more than 50% of the then outstanding voting stock of the Company or the Subsidiary (for purposes of this Agreement, "Person(s)" means any individual, entity, or other person, as defined in Section 3(a)(9) of the Exchange Act, and as used in Sections 13(d) and 14(d) thereof; or
- (c) the Board or the Company shall authorize, approve or engage in any Business Combination with an Interested Person, each as defined in Article Fifth of the Company's Restated Certificate of Incorporation.

6. ADJUSTMENTS TO NUMBER OF SHARES. Subject to the following provisions of this paragraph 6 in the event of any change in the outstanding shares of common stock of the Company by reason of any stock dividend, split, spinoff, recapitalization or other similar change, the terms and the number of shares of any outstanding Restricted Stock shall be equitably adjusted by the Company to the extent that such adjustment is necessary to preserve the benefit of this Agreement for the Executive and the Company.

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7. AGREEMENT NOT CONTRACT OF EMPLOYMENT. This Agreement does not constitute a contract of employment, and does not give the Executive the right to be retained in the employ of the Company.

8. SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon, and inure to the benefit of, the Company and its successors and assigns, and upon any person acquiring, whether by merger, consolidation, purchase of assets or otherwise, all or substantially all of the Company's assets and business.

9. APPLICABLE LAW. The provisions of this Agreement shall be construed in accordance with the laws of the State of New York, without giving effect to

choice of law principles. Notwithstanding any other provision of this Agreement to the contrary, the Company may subject shares of stock transferred pursuant to this Agreement to such conditions, limitations or restrictions as the Company determines to be necessary or desirable to comply with any applicable law or regulation.

10. AMENDMENT. This Agreement may be amended by written agreement of the Executive and the Company, without the consent of any other person.

11. PLAN AMENDMENT. The Plan is hereby amended to permit the award set forth in this agreement, and the officers of the Company are authorized to modify the Plan language to reflect such amendment.

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

/s/ M. Farooq Kathwari

M. Farooq Kathwari

ETHAN ALLEN INTERIORS INC.

/s/ Edward Meyer

By: Edward Meyer
Its: Chairman, Compensation Committee

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Exhibit B - August 1, 2002 Grant Date

STOCK OPTION AGREEMENT

THIS AGREEMENT, dated as of August 1, 2002 (the "Agreement Date") and entered into by and between Ethan Allen Interiors Inc. (the "Company") and M. Farooq Kathwari (the "Participant").

WITNESSETH THAT:

WHEREAS, the Company and Executive have entered into an Employment Agreement, dated as of August 1, 2002 (as amended in accordance with its terms, the "Employment Agreement"); and

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

WHEREAS, the Participant has been selected by the Compensation Committee of the Board of Directors of the Company (the "Committee") to receive an award under the Plan in accordance with the Employment Agreement, and this Stock Option Agreement is being entered into pursuant to Section 5.2(c)(i) thereof;

WHEREAS, to the extent not specified in the Plan, the terms of the award have been determined by the Committee and in accordance with the Employment Agreement and are set forth in this Agreement;

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

1. AWARD; OPTION PRICE. Subject to the terms of this Agreement, the Participant is granted, as of the date of this Agreement (the "Grant Date"), a "Stock Option" to purchase 600,000 shares of Common Stock, which is the number of the "Covered Shares," at a per share exercise price equal to the Fair Market Value (as that term is defined in the Plan) of a share of Common Stock on the New York Stock Exchange as of the Grant Date.

2. VESTING; FORFEITURES. Subject to the limitations of this Agreement, each Installment of Covered Shares of the Stock Option shall be exercisable on and after the Vesting Date for such Installment as described in the following schedule (but, subject to the terms of the Employment Agreement, only if the Date of Termination has not occurred before the Vesting Date):

Installment	Vesting Date applicable to that Installment
33 1/3% of Covered Shares	First Anniversary of Grant Date
33 1/3% of Covered Shares	Second Anniversary of Grant Date
33 1/3% of Covered Shares	Third Anniversary of Grant Date

Notwithstanding the foregoing provisions of this paragraph 2, the Stock Option shall become vested and exercisable not later than the time or times provided by the Employment Agreement. Except as otherwise provided in the Employment Agreement, the Stock Option may be exercised

on or after the Date of Termination only as to that portion of the Covered Shares for which it was exercisable immediately prior to the Date of Termination, or became exercisable upon the Date of Termination.

3. CHANGE IN CONTROL. Notwithstanding the provisions of paragraph 2, the Stock Option will become immediately exercisable upon the occurrence of a Change in Control, if the Executive is then employed by the Company and such options have not previously been forfeited in accordance with paragraph 2. For purposes of this Agreement, a "Change in Control" shall occur upon the occurrence of any of the following:

- (a) the Board or the shareholders of the Company or Ethan Allen Inc., a Delaware corporation and a wholly owned subsidiary of the Company (the "Subsidiary"), either or both, as may be required to authorize the same, shall approve (i) any liquidation of the Company or the Subsidiary, or the sale of substantially all of the assets of the Company and the Subsidiary taken as a whole, or (ii) any merger, consolidation and/or other business combination involving the Company or the Subsidiary or any combination of any such transactions (a "Transaction"), other than a Transaction (A) involving only the Company and the Subsidiary, or (B) immediately after which the shareholders of the Company who were shareholders immediately prior to the transaction continue to own beneficially, directly or indirectly, in substantially similar proportions to those in effect immediately prior to such transaction more than 50% of the then outstanding voting securities of the Company or the survivor or any parent thereof, as applicable;
- (b) any Person (as defined below) or group (as such term is defined in Rule 13d-5 of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) of related Persons (other than the Company, an employee benefit plan sponsored by the Company or the Subsidiary, or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportion as their ownership of the stock of the Company) shall beneficially own, directly or indirectly, more than 50% of the then outstanding voting stock of the Company or the Subsidiary (for purposes of this Agreement, "Person(s)" means any individual, entity, or other person, as defined in Section 3(a)(9) of the Exchange Act, and as used in Sections 13(d) and 14(d) thereof; or
- (c) the Board or the Company shall authorize, approve or engage in any Business Combination with an Interested Person, each as defined in Article Fifth of the Company's Restated Certificate of Incorporation.

4. EXERCISE. Subject to the terms of this Agreement and the Plan, the Stock Option may be exercised in accordance with the following:

- (a) To the extent that it is exercisable, the Stock Option may be exercised in whole or in part at any time prior to the Expiration Date (as defined in paragraph 5); provided however that the Stock Option may only be exercised with respect to whole shares of Common Stock.
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- (b) The Stock Option may be exercised with respect to no less than 100 shares of Common Stock, or if less than 100 shares are then exercisable, the number of whole shares then exercisable.
 - (c) Payment of the Option Price shall be by cash or by check payable to the Company. All or a portion of the Option Price may be paid by the Participant by delivery of shares of Stock owned by the Participant having an aggregate Fair Market Value (valued as of the date of exercise) that is equal to the amount of cash that would otherwise be required. Except as otherwise provided by the Committee, payments made with shares of Common Stock in accordance with the preceding sentence shall be limited to shares held by the Participant for not less than six months prior to the payment date.
 - (d) All deliveries and distributions under this Agreement are subject to withholding of all applicable taxes. At the election of the Participant, and subject to such rules and limitations as may be

established by the Committee from time to time, such withholding obligations may be satisfied through the surrender of shares of Stock which the Participant already owns, or to which the Participant is otherwise entitled under the Plan; provided, however, that such shares may be used to satisfy not more than the Company's minimum statutory withholding obligation (based on minimum statutory withholding rates for Federal and state tax purposes, including payroll taxes, that are applicable to such supplemental taxable income).

- (e) Pursuant to rules established by the Committee, the Participant may elect to pay the Option Price upon the exercise of an Stock Option by irrevocably authorizing a broker to sell shares of Common Stock (or a sufficient portion of the shares) acquired upon exercise of the Stock Option and remit to the Company a sufficient portion of the sale proceeds to pay the entire Option Price and any tax withholding resulting from such exercise. The Participant may elect to have the broker sell additional shares up to the full number of shares subject to the Stock Option exercise. Following the broker's delivery to the Company of the proceeds necessary to satisfy the Option Price and the tax withholding obligation and any additional proceeds, the Company will deliver to the broker the number of shares previously sold by the broker at the Participant's direction, and the Company will deliver any remaining amount to the Participant.

5. EXPIRATION DATE. For purposes of this Agreement, the "Expiration Date" shall be the close of business on the earlier of the following dates (or if such date is not a business day, the last business day preceding such date):

- (a) the date which is 10 years from Grant Date; or
- (b) the date which is 90 days after the Date of Termination, subject to Section 6 of the Employment Agreement; provided, however, that if the Participant's employment with the Company terminates by reason of "Retirement" as defined in Section 1.8 of the Employment Agreement, the date determined under this paragraph (b) shall be not earlier than the three-year anniversary of the date of the Executive's Retirement.

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6. DEFINED TERMS; TERMS OF PLAN. Unless the context clearly indicates otherwise, defined terms as used in this Agreement shall have the same meaning as ascribed to those terms under the Plan. For purposes of this Agreement, the term "Date of Termination" shall have the meaning ascribed to it in the Employment Agreement. Notwithstanding any other provision of this Agreement, the terms of the Plan shall govern and the Stock Option shall be subject, in all respects, to the terms and conditions of the Plan.

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

/s/ M. Farooq Kathwari

M. Farooq Kathwari

ETHAN ALLEN INTERIORS INC.

/s/ Edward Meyer

By: Edward Meyer
Its: Chairman, Compensation Committee

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Exhibit C - August 1, 2003 Grant Date

STOCK OPTION AGREEMENT

THIS AGREEMENT, dated as of August 1, 2003 (the "Agreement Date") and entered into by and between Ethan Allen Interiors Inc. (the "Company") and M.

Farooq Kathwari (the "Participant").

WITNESSETH THAT:

WHEREAS, the Company and Executive have entered into an Employment Agreement, dated August 1, 2002 (as amended in accordance with its terms, the "Employment Agreement"); and

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

WHEREAS, the Participant has been selected by the Compensation Committee of the Board of Directors of the Company (the "Committee") to receive an award under the Plan in accordance with the Employment Agreement, and this Stock Option Agreement is being entered into pursuant to Section 5.2(c)(i) thereof;

WHEREAS, to the extent not specified in the Plan, the terms of the award have been determined by the Committee and in accordance with the Employment Agreement and are set forth in this Agreement;

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

1. AWARD; OPTION PRICE. Subject to the terms of this Agreement, the Participant is granted, as of August 1, 2003 (the "Grant Date"), a "Stock Option" to purchase 400,000 shares of Common Stock, which is the number of the "Covered Shares," at a per share exercise price equal to the Fair Market Value (as that term is defined in the Plan) of a share of Common Stock on the New York Stock Exchange as of the Grant Date.

2. VESTING; FORFEITURES. Subject to the limitations of this Agreement, each Installment of Covered Shares of the Stock Option shall be exercisable on and after the Vesting Date for such Installment as described in the following schedule (but, subject to the terms of the Employment Agreement, only if the Date of Termination has not occurred before the Vesting Date):

Installment	Vesting Date applicable to that Installment
50% of Covered Shares	First Anniversary of Grant Date
50% of Covered Shares	Second Anniversary of Grant Date

Notwithstanding the foregoing provisions of this paragraph 2, the Stock Option shall become vested and exercisable not later than the time or times provided by the Employment Agreement. Except as otherwise provided in the Employment Agreement, the Stock Option may be exercised on or after the Date of Termination only as to that portion of the Covered Shares for which it was

exercisable immediately prior to the Date of Termination, or became exercisable upon the Date of Termination.

3. CHANGE IN CONTROL. Notwithstanding the provisions of paragraph 2, the Stock Option will become immediately exercisable upon the occurrence of a Change in Control, if the Executive is then employed by the Company and such options have not previously been forfeited in accordance with paragraph 2. For purposes of this Agreement, a "Change in Control" shall occur upon the occurrence of any of the following:

- (a) the Board or the shareholders of the Company or Ethan Allen Inc., a Delaware corporation and a wholly owned subsidiary of the Company (the "Subsidiary"), either or both, as may be required to authorize the same, shall approve (i) any liquidation of the Company or the Subsidiary, or the sale of substantially all of the assets of the Company and the Subsidiary taken as a whole, or (ii) any merger, consolidation and/or other business combination involving the Company or the Subsidiary or any combination of any such transactions (a "Transaction"), other than a Transaction (A) involving only the Company and the Subsidiary, or (B) immediately after which the shareholders of the Company who were shareholders immediately prior to the transaction continue to own beneficially, directly or indirectly, in substantially similar proportions to those in effect immediately prior to such transaction more than 50% of the then outstanding voting securities of the Company or the survivor or any parent thereof, as applicable;
- (b) any Person (as defined below) or group (as such term is defined in Rule 13d-5 of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) of related Persons (other than the Company, an employee benefit plan sponsored by the Company or the Subsidiary, or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportion as their ownership of the stock of the Company) shall beneficially own, directly or indirectly, more than 50% of the then outstanding voting stock of the Company or the

Subsidiary (for purposes of this Agreement, "Person(s)" means any individual, entity, or other person, as defined in Section 3(a)(9) of the Exchange Act, and as used in Sections 13(d) and 14(d) thereof; or

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

4. EXERCISE. Subject to the terms of this Agreement and the Plan, the Stock Option may be exercised in accordance with the following:

- (a) To the extent that it is exercisable, the Stock Option may be exercised in whole or in part at any time prior to the Expiration Date (as defined in paragraph 5); provided however that the Stock Option may only be exercised with respect to whole shares of Common Stock.
- (b) The Stock Option may be exercised with respect to no less than 100 shares of Common Stock, or if less than 100 shares are then exercisable, the number of whole shares then exercisable.

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- (c) Payment of the Option Price shall be by cash or by check payable to the Company. All or a portion of the Option Price may be paid by the Participant by delivery of shares of Stock owned by the Participant having an aggregate Fair Market Value (valued as of the date of exercise) that is equal to the amount of cash that would otherwise be required. Except as otherwise provided by the Committee, payments made with shares of Common Stock in accordance with the preceding sentence shall be limited to shares held by the Participant for not less than six months prior to the payment date.
- (d) All deliveries and distributions under this Agreement are subject to withholding of all applicable taxes. At the election of the Participant, and subject to such rules and limitations as may be established by the Committee from time to time, such withholding obligations may be satisfied through the surrender of shares of Stock which the Participant already owns, or to which the Participant is otherwise entitled under the Plan; provided, however, that such shares may be used to satisfy not more than the Company's minimum statutory withholding obligation (based on minimum statutory withholding rates for Federal and state tax purposes, including payroll taxes, that are applicable to such supplemental taxable income).
- (e) Pursuant to rules established by the Committee, the Participant may elect to pay the Option Price upon the exercise of an Stock Option by irrevocably authorizing a broker to sell shares of Common Stock (or a sufficient portion of the shares) acquired upon exercise of the Stock Option and remit to the Company a sufficient portion of the sale proceeds to pay the entire Option Price and any tax withholding resulting from such exercise. The Participant may elect to have the broker sell additional shares up to the full number of shares subject to the Stock Option exercise. Following the broker's delivery to the Company of the proceeds necessary to satisfy the Option Price and the tax withholding obligation and any additional proceeds, the Company will deliver to the broker the number of shares previously sold by the broker at the Participant's direction, and the Company will deliver any remaining amount to the Participant.

5. EXPIRATION DATE. For purposes of this Agreement, the "Expiration Date" shall be the close of business on the earlier of the following dates (or if such date is not a business day, the last business day preceding such date):

- (a) the date which is 10 years from Grant Date; or
- (b) the date which is 90 days after the Date of Termination, subject to Section 6 of the Employment Agreement; provided, however, that if the Participant's employment with the Company terminates by reason of "Retirement" as defined in Section 1.8 of the Employment Agreement, the date determined under this paragraph (b) shall be not earlier than the three-year anniversary of the date of the Executive's Retirement.

6. DEFINED TERMS; TERMS OF PLAN. Unless the context clearly indicates otherwise, defined terms as used in this Agreement shall have the same meaning as ascribed to those terms under the Plan. For purposes of this Agreement, the term "Date of Termination" shall have the meaning ascribed to it in the Employment Agreement. Notwithstanding any other provision of

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this Agreement, the terms of the Plan shall govern and the Stock Option shall be

subject, in all respects, to the terms and conditions of the Plan.

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

M. Farooq Kathwari

ETHAN ALLEN INTERIORS INC.

By: _____
Its: Chairman, Compensation Committee

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Exhibit D - August 1, 2004 Grant Date

STOCK OPTION AGREEMENT

THIS AGREEMENT, dated as of August 1, 2004 (the "Agreement Date") and entered into by and between Ethan Allen Interiors Inc. (the "Company") and M. Farooq Kathwari (the "Participant").

WITNESSETH THAT:

WHEREAS, the Company and Executive have entered into an Employment Agreement, dated as of August 1, 2002 (as amended in accordance with its terms, the "Employment Agreement"); and

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

WHEREAS, the Participant has been selected by the Compensation Committee of the Board of Directors of the Company (the "Committee") to receive an award under the Plan in accordance with the Employment Agreement, and this Stock Option Agreement is being entered into pursuant to Section 5.2(c)(i) thereof;

WHEREAS, to the extent not specified in the Plan, the terms of the award have been determined by the Committee and in accordance with the Employment Agreement and are set forth in this Agreement;

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

1. AWARD; OPTION PRICE. Subject to the terms of this Agreement, the Participant is granted, as of August 1, 2004 (the "Grant Date"), a "Stock Option" to purchase 200,000 shares of Common Stock, which is the number of the "Covered Shares," at a per share exercise price equal to the Fair Market Value (as that term is defined in the Plan) of a share of Common Stock on the New York Stock Exchange as of the Grant Date.

2. VESTING; FORFEITURES. Subject to the limitations of this Agreement, the Covered Shares of the Stock Option shall be exercisable on and after the Vesting Date which shall be the one year anniversary of the Grant Date, (but, subject to the terms of the Employment Agreement, only if the Date of Termination has not occurred before the Vesting Date). Notwithstanding the foregoing provisions of this paragraph 2, the Stock Option shall become vested and exercisable not later than the time or times provided by the Employment Agreement. Except as otherwise provided in the Employment Agreement, the Stock Option may be exercised on or after the Date of Termination only as to that portion of the Covered Shares for which it was exercisable immediately prior to the Date of Termination, or became exercisable upon the Date of Termination.

3. CHANGE IN CONTROL. Notwithstanding the provisions of paragraph 2, the Stock Option will become immediately exercisable upon the occurrence of a Change in Control, if the

Executive is then employed by the Company and such options have not previously

been forfeited in accordance with paragraph 2. For purposes of this Agreement, a "Change in Control" shall occur upon the occurrence of any of the following:

- (a) the Board or the shareholders of the Company or Ethan Allen Inc., a Delaware corporation and a wholly owned subsidiary of the Company (the "Subsidiary"), either or both, as may be required to authorize the same, shall approve (i) any liquidation of the Company or the Subsidiary, or the sale of substantially all of the assets of the Company and the Subsidiary taken as a whole, or (ii) any merger, consolidation and/or other business combination involving the Company or the Subsidiary or any combination of any such transactions (a "Transaction"), other than a Transaction (A) involving only the Company and the Subsidiary, or (B) immediately after which the shareholders of the Company who were shareholders immediately prior to the transaction continue to own beneficially, directly or indirectly, in substantially similar proportions to those in effect immediately prior to such transaction more than 50% of the then outstanding voting securities of the Company or the survivor or any parent thereof, as applicable;
- (b) any Person (as defined below) or group (as such term is defined in Rule 13d-5 of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) of related Persons (other than the Company, an employee benefit plan sponsored by the Company or the Subsidiary, or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportion as their ownership of the stock of the Company) shall beneficially own, directly or indirectly, more than 50% of the then outstanding voting stock of the Company or the Subsidiary (for purposes of this Agreement, "Person(s)" means any individual, entity, or other person, as defined in Section 3(a)(9) of the Exchange Act, and as used in Sections 13(d) and 14(d) thereof; or
- (c) the Board or the Company shall authorize, approve or engage in any Business Combination with an Interested Person, each as defined in Article Fifth of the Company's Restated Certificate of Incorporation.

4. EXERCISE. Subject to the terms of this Agreement and the Plan, the Stock Option may be exercised in accordance with the following:

- (a) To the extent that it is exercisable, the Stock Option may be exercised in whole or in part at any time prior to the Expiration Date (as defined in paragraph 5); provided however that the Stock Option may only be exercised with respect to whole shares of Common Stock.
- (b) The Stock Option may be exercised with respect to no less than 100 shares of Common Stock, or if less than 100 shares are then exercisable, the number of whole shares then exercisable.
- (c) Payment of the Option Price shall be by cash or by check payable to the Company. All or a portion of the Option Price may be paid by the Participant by delivery of shares of Stock owned by the Participant having an aggregate Fair Market Value (valued as of the date of exercise) that is equal to the amount of cash that would otherwise be required.

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Except as otherwise provided by the Committee, payments made with shares of Common Stock in accordance with the preceding sentence shall be limited to shares held by the Participant for not less than six months prior to the payment date.

- (d) All deliveries and distributions under this Agreement are subject to withholding of all applicable taxes. At the election of the Participant, and subject to such rules and limitations as may be established by the Committee from time to time, such withholding obligations may be satisfied through the surrender of shares of Stock which the Participant already owns, or to which the Participant is otherwise entitled under the Plan; provided, however, that such shares may be used to satisfy not more than the Company's minimum statutory withholding obligation (based on minimum statutory withholding rates for Federal and state tax purposes, including payroll taxes, that are applicable to such supplemental taxable income).
- (e) Pursuant to rules established by the Committee, the Participant may elect to pay the Option Price upon the exercise of an Stock Option by irrevocably authorizing a broker to sell shares of Common Stock (or a sufficient portion of the shares) acquired upon exercise of the Stock Option and remit to the Company a sufficient portion of the sale proceeds to pay the entire Option Price and any tax withholding resulting from such exercise. The Participant may elect to have the broker sell additional shares up to the full number of shares subject to the Stock Option exercise. Following the broker's delivery to the Company of the proceeds necessary to satisfy the Option Price and the tax withholding obligation and any additional proceeds, the Company will deliver to the broker the number of shares previously sold by the

broker at the Participant's direction, and the Company will deliver any remaining amount to the Participant.

5. EXPIRATION DATE. For purposes of this Agreement, the "Expiration Date" shall be the close of business on the earlier of the following dates (or if such date is not a business day, the last business day preceding such date):

- (a) the date which is 10 years from Grant Date; or
- (b) the date which is 90 days after the Date of Termination, subject to Section 6 of the Employment Agreement; provided, however, that if the Participant's employment with the Company terminates by reason of "Retirement" as defined in Section 1.8 of the Employment Agreement, the date determined under this paragraph (b) shall be not earlier than the three-year anniversary of the date of the Executive's Retirement.

6. DEFINED TERMS; TERMS OF PLAN. Unless the context clearly indicates otherwise, defined terms as used in this Agreement shall have the same meaning as ascribed to those terms under the Plan. For purposes of this Agreement, the term "Date of Termination" shall have the meaning ascribed to it in the Employment Agreement. Notwithstanding any other provision of this Agreement, the terms of the Plan shall govern and the Stock Option shall be subject, in all respects, to the terms and conditions of the Plan.

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

M. Farooq Kathwari

ETHAN ALLEN INTERIORS INC.

By: Edward Meyer
Its: Chairman, Compensation Committee

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