

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

**FORM 8-K**  
Current Report  
Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 23, 2006

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

**Delaware**  
(State or other jurisdiction of  
incorporation)

**1-11692**  
(Commission File Number)

**06-1275288**  
(I.R.S. Employer Identification Number)

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

**06811**  
(Zip Code)

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

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

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

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

**INFORMATION TO BE INCLUDED IN REPORT**

**SECTION 2 – FINANCIAL INFORMATION**

**Item 2.02 Results of Operations and Financial Condition**

The information contained within Item 2.02 of this Form 8-K and the Exhibits attached hereto shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 and shall not be deemed incorporated by reference in any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.

On October 23, 2006, Ethan Allen Interiors Inc. (“Ethan Allen” or the “Company”) issued a press release setting forth its operating results for the three months ended September 30, 2006. A copy of the press release is attached hereto as Exhibit 99.1 and hereby incorporated by reference.

Exhibits 99.1 and 99.2 include references to the Company’s (i) consolidated operating profit, (ii) wholesale operating profit, (iii) net income, (iv) earnings per share, and (v) earnings before interest, taxes, depreciation and amortization (“EBITDA”), all excluding the effects of restructuring and impairment charges recorded during the three months ended September 30, 2006 and September 30, 2005 as a result of the Company’s decision to consolidate selected manufacturing facilities and/or convert such facilities into regional distribution centers. A reconciliation of these financial measures to the most directly comparable financial measure reported in accordance with generally accepted accounting principles (“GAAP”) is also provided in Exhibit 99.2.

Management believes that excluding items which are deemed to be non-recurring in nature from financial measures such as operating profit, wholesale operating profit, net income, and earnings per share, allows investors to more easily compare and evaluate the Company’s financial performance relative to prior periods and industry comparables. These adjusted measures also aid investors in understanding the operating results of the Company absent such non-recurring or unusual events.

Management considers EBITDA an important indicator of the operational strength and performance of its business, including the ability of the Company to pay interest, service debt and fund capital expenditures. Given the nature of the Company’s operations, including the tangible assets necessary to carry out its production and distribution activities, depreciation and amortization represent Ethan Allen’s largest non-cash charges. As these non-cash charges do not affect the Company’s ability to service debt or make capital expenditures, it is important to consider EBITDA in addition to, but not as a substitute for, operating income, net income and other measures of financial

performance reported in accordance with GAAP, including cash flow measures such as operating cash flow. Further, EBITDA is one measure used to determine compliance with the Company's existing credit facility.

## **SECTION 9 – FINANCIAL STATEMENTS AND EXHIBITS**

### **Item 9.01 Financial Statements and Exhibits**

(d) Exhibits

<u>Exhibit</u>	<u>Description</u>
99.1	Press release dated October 23, 2006
99.2	Reconciliation of non-GAAP financial information disclosed in October 23, 2006 press release and conference call to the most directly comparable GAAP financial measure

### **SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ETHAN ALLEN INTERIORS INC.

Date: October 23, 2006

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

### **EXHIBIT INDEX**

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99.1	Press release dated October 23, 2006
99.2	Reconciliation of non-GAAP financial information disclosed in October 23, 2006 press release and conference call to the most directly comparable GAAP financial measure

FOR IMMEDIATE RELEASE

Ethan Allen Interiors Inc.  
 Investor Contact/Media Contact: Peg Lupton  
 (203) 743-8234

### ETHAN ALLEN ANNOUNCES FIRST QUARTER SALES AND EARNINGS

DANBURY, Conn., October 23, 2006 — Ethan Allen Interiors Inc. (“Ethan Allen” or the “Company”) (NYSE:ETH) today reported sales and earnings for the three months ended September 30, 2006.

Net delivered sales for the quarter ended September 30, 2006 amounted to \$242.8 million as compared to \$251.3 million in the prior year quarter. Net delivered sales for the Company’s Retail division increased 4.8% to \$166.0 million, while Wholesale sales decreased 12.8% to \$155.6 million during that same period. Comparable Ethan Allen design center delivered sales decreased 1.7% as compared to the prior year quarter.

The Company previously announced, on September 6, 2006, a plan to consolidate one of its case goods manufacturing facilities and convert one of its upholstery manufacturing facilities into a regional distribution center. As a result, the Company recorded a pre-tax restructuring and impairment charge of \$13.9 million (\$8.7 million, after-tax), or \$0.27 per share, in the quarter ended September 30, 2006. In the prior year comparable period, the Company recorded a pre-tax restructuring and impairment charge totaling \$4.2 million (\$2.6 million, after-tax), or \$0.08 per share, related to the conversion of another of its manufacturing facilities into a regional distribution center.

Including the aforementioned after-tax restructuring and impairment charges, earnings per share amounted to \$0.26 on net income of \$8.5 million for the quarter ended September 30, 2006 as compared to earnings per share and net income of \$0.49 and \$17.1 million, respectively, in the prior year comparable period. Excluding the impact of these restructuring and impairment charges, earnings per share amounted to \$0.53 on net income of \$17.2 million for the three months ended September 30, 2006, as compared to earnings per share and net income of \$0.57 and \$19.7 million, respectively, in the prior year comparable period.

During the quarter, the Company utilized \$16.7 million of available cash from operations to repurchase 478,300 shares of its common stock in the open market. In July, the Company’s Board of Directors increased the then remaining share repurchase authorization to 2,500,000 shares. As of September 30, 2006, the Company had a remaining authorization to repurchase an additional 2,473,000 shares.

Farooq Kathwari, Chairman and CEO, commented: “We are pleased to report operating earnings, ex-restructuring, of 11.6% of sales despite a weak retail environment for home furnishings and challenging prior year comparisons which, together, resulted in a 3.4% decline in sales. During the quarter, we generated nearly \$37 million in operating cash. During that same period, we utilized \$17 million for stock repurchases and an additional \$22 million for capital expenditures and acquisitions.”

Mr. Kathwari further stated: “We continue to make progress in our efforts to position Ethan Allen as an interior design service company by strengthening the professionalism of our associates, developing stylish products which enable us to provide one-stop design service, opening new design centers in key markets, and shortening the delivery time of our products to our clients. We believe these efforts, along with our marketing initiatives, provide us a great competitive advantage and opportunity to grow our business.”

Commenting on business trends, Mr. Kathwari continued: “As previously stated, we saw positive trends in September. However, as has been reported by many, the retail environment remains difficult. In addition, sales in the prior year quarter benefited from our initiative to reduce delivery times. While this initiative has been very positive for our clients, it has reduced our forward visibility and made comparisons to the prior year more challenging. As a result, we plan to provide a further update in the coming weeks in order to report whether we believe the trends experienced in September are sustainable throughout the second quarter.”

Ethan Allen Interiors Inc. is a leading manufacturer and retailer of quality home furnishings. The Company sells a full range of furniture products and decorative accessories through an exclusive network of 307 design centers in the United States and abroad, of which 141 are Company-owned. Ethan Allen has 9 manufacturing facilities, which include 2 sawmills, located throughout the United States.

The Company will conduct a Conference Call at 11:00 AM (Eastern) on Monday, October 23<sup>rd</sup>. The live webcast and replay are accessible via the Company’s website at [www.ethanallen.com/investors](http://www.ethanallen.com/investors).

EXHIBIT 99.1

This press release should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended June 30, 2006 and other reports filed with the Securities and Exchange Commission. This press release and related discussions contain forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements reflect management’s current expectations concerning future events and results of the Company, and are subject to various assumptions, risks and uncertainties. Accordingly, actual future events or results could differ materially from those contemplated by the forward-looking statements. The Company assumes no obligation to update or provide revision to any forward-looking statement at any time for any reason.

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EXHIBIT 99.1

**Ethan Allen Interiors Inc.**  
**Selected Financial Information**  
**Unaudited**  
(In millions)

Selected Consolidated Financial Data:

	Three Months Ended	
	9/30/06	9/30/05
Net Sales	\$ 242.8	\$ 251.3
Gross Margin	52.0%	50.4%
Operating Margin	5.9%	11.2%
Operating Margin (ex restructuring & impairment charges)	11.6%	12.9%

Net Income	\$ 8.5	\$ 17.1
Net Income (ex restructuring & impairment charges)	\$ 17.2	\$ 19.7
Operating Cash Flow	\$ 36.9	\$ 45.6
Capital Expenditures	\$ 15.7	\$ 4.8
Treasury Stock Repurchases (settlement date basis)	\$ 17.7	\$ 36.8
EBITDA	\$ 22.0	\$ 33.4
EBITDA as % of Net Sales	9.0%	13.3%
EBITDA (ex restructuring & impairment charges)	\$ 35.9	\$ 37.6
EBITDA as % of Net Sales (ex restructuring & impairment charges)	14.8%	15.0%

Selected Financial Data by Business Segment:

<i>Retail</i>	Three Months Ended	
	9/30/06	9/30/05
Net Sales	\$ 166.0	\$ 158.4
Operating Margin	1.7%	1.1%

<i>Wholesale</i>	Three Months Ended	
	9/30/06	9/30/05
Net Sales	\$ 155.6	\$ 178.4
Operating Margin	7.3%	16.7%
Operating Margin (ex restructuring & impairment charges)	16.3%	19.1%

EXHIBIT 99.1

**Ethan Allen Interiors Inc.**  
**Condensed Consolidated Statements of Operations**  
**Unaudited**  
(In thousands, except per share amounts)

	Three Months Ended September 30,	
	2006	2005
Net sales	\$ 242,823	\$ 251,314
Cost of sales	116,494	124,774
<b>Gross Profit</b>	<b>126,329</b>	<b>126,540</b>
Operating Expenses:		
Selling	55,038	53,440
General and administrative	43,125	40,665
Restructuring and impairment charge	13,936	4,241
<b>Total operating expenses</b>	<b>112,099</b>	<b>98,346</b>
Operating Income	14,230	28,194
Interest and other miscellaneous income	2,232	42
Interest and other related financing costs	2,938	428
<b>Income before income tax expense</b>	<b>13,524</b>	<b>27,808</b>
Income tax expense	5,072	10,678
<b>Net Income</b>	<b>\$ 8,452</b>	<b>\$ 17,130</b>
<u>Basic earnings per share:</u>		
Net income per share	\$ 0.27	\$ 0.50
<b>Basic weighted average shares outstanding</b>	<b>31,815</b>	<b>33,921</b>
<u>Diluted earnings per share:</u>		
Net income per share	\$ 0.26	\$ 0.49
<b>Diluted weighted average shares outstanding</b>	<b>32,631</b>	<b>34,628</b>

**Ethan Allen Interiors Inc.**  
**Condensed Consolidated Balance Sheets**  
(In thousands)

	<u>September 30,</u> <u>2006</u> <u>(unaudited)</u>	<u>June 30,</u> <u>2006</u>
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 163,636	\$ 173,801
Accounts receivable, net	20,824	22,179
Inventories	180,011	189,650
Prepaid expenses and other current assets	38,864	38,126
<b>Total current assets</b>	<b>403,335</b>	<b>423,756</b>
Property, plant, and equipment, net	298,917	294,170
Intangible assets, net	88,259	87,899
Other assets	5,971	6,416
<b>Total Assets</b>	<b>\$ 796,482</b>	<b>\$ 812,241</b>
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities:		
Current maturities of long-term debt and capital lease obligations	\$ 39	\$ 39
Customer deposits	52,578	53,203
Accounts payable	25,076	28,549
Accrued expenses and other current liabilities	67,981	63,927
<b>Total current liabilities</b>	<b>145,674</b>	<b>145,718</b>
Long-term debt	202,778	202,748
Other long-term liabilities	12,182	12,151
Deferred income taxes	31,908	34,182
<b>Total liabilities</b>	<b>392,542</b>	<b>394,799</b>
Shareholders' equity	403,940	417,442
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 796,482</b>	<b>\$ 812,241</b>

Ethan Allen Interiors Inc.  
**GAAP Reconciliation**  
**Three Months Ended September 30, 2006 and 2005**  
(in thousands, except per share amounts)

	Three Months Ended September 30	
	2006	2005
<b>Net Income / Earnings Per Share</b>		
Net income	\$ 8,452	\$ 17,130
Add: restructuring and impairment charge, net of related tax effect	8,709	2,612
<b>Net income (excluding restructuring and impairment charge)</b>	<b>\$ 17,161</b>	<b>\$ 19,742</b>
Earnings per basic share	\$ 0.27	\$ 0.50
<b>Earnings per basic share (excluding restructuring and impairment charge)</b>	<b>\$ 0.54</b>	<b>\$ 0.58</b>
Basic weighted average shares outstanding	31,815	33,921
<b>Earnings per diluted share</b>	<b>\$ 0.26</b>	<b>\$ 0.49</b>
Earnings per diluted share (excluding restructuring and impairment charge)	\$ 0.53	\$ 0.57
<b>Diluted weighted average shares outstanding</b>	<b>32,631</b>	<b>34,628</b>
<b>Consolidated Operating Income / Operating Margin</b>		
Operating income	\$ 14,230	\$ 28,194
Add: restructuring and impairment charge	13,936	4,241
<b>Operating income (excluding restructuring and impairment charge)</b>	<b>\$ 28,166</b>	<b>\$ 32,435</b>
Net sales	\$ 242,823	\$ 251,314
<b>Operating margin</b>	<b>5.9%</b>	<b>11.2%</b>
Operating margin (excluding restructuring and impairment charge)	11.6%	12.9%
<b>Wholesale Operating Income / Operating Margin</b>		
Wholesale operating income	\$ 11,424	\$ 29,815
Add: restructuring and impairment charge	13,936	4,241
<b>Wholesale operating income (excluding restructuring and impairment charge)</b>	<b>\$ 25,360</b>	<b>\$ 34,056</b>
Wholesale net sales	\$ 155,641	\$ 178,426
<b>Wholesale operating margin</b>	<b>7.3%</b>	<b>16.7%</b>
Wholesale operating margin (excluding restructuring and impairment charge)	16.3%	19.1%
<b>EBITDA</b>		
Net income	\$ 8,452	\$ 17,130
Add: interest expense	2,845	247
Add: income tax expense	5,072	10,678
Add: depreciation and amortization	5,604	5,320
<b>EBITDA</b>	<b>\$ 21,973</b>	<b>\$ 33,375</b>
Net sales	\$ 242,823	\$ 251,314
<b>EBITDA as % of net sales</b>	<b>9.0%</b>	<b>13.3%</b>
EBITDA	\$ 21,973	\$ 33,375
Add: restructuring and impairment charge	13,936	4,241
<b>EBITDA (excluding restructuring and impairment charge)</b>	<b>\$ 35,909</b>	<b>\$ 37,616</b>

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Net sales	\$ 242,823	\$ 251,314
EBITDA as % of net sales	14.8%	15.0%

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