

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2000

or

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

For the transition period from _____ to _____

Commission File Number: 1-11692

Ethan Allen Interiors Inc.

(Exact name of registrant as specified in its charter)

Delaware 06-1275288

(State or other jurisdiction of incorporation I.R.S. Employer ID No.)
or organization)

Ethan Allen Drive, Danbury, Connecticut 06811

(Address of principal executive offices)

(203) 743-8000

(Registrant's telephone number, including area code)

N/A

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

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

39,415,939 at January 31, 2001

ETHAN ALL INTERIORS INC. AND SUBSIDIARY

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY
Consolidated Balance Sheets
(Dollars in thousands)

<TABLE>
<CAPTION>

	December 31, 2000 (unaudited)	June 30, 2000
	-----	-----
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 24,457	\$ 14,024
Accounts receivable, less allowances of \$2,493 and \$2,751 at December 31, 2000 and June 30, 2000, respectively	31,274	34,336
Inventories	161,946	159,006
Prepaid expenses and other current assets	19,790	17,670
Deferred income taxes	12,942	10,751
	-----	-----
Total current assets	250,409	235,787
Property, plant and equipment, net	267,548	247,738
Intangibles, net	53,667	54,770
Other assets	7,310	5,276
	-----	-----
Total assets	\$ 578,934	\$ 543,571
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Current maturities of long-term debt and capital lease obligations	\$ 303	\$ 8,420
Accounts payable	65,317	65,879
Accrued expenses	12,230	11,003
Accrued compensation and benefits	23,657	22,966
	-----	-----

Total current liabilities	101,507	108,268
Long-term debt	9,422	9,487
Other long-term liabilities	2,314	1,593
Deferred income taxes	34,115	33,714
	-----	-----
Total liabilities	147,358	153,062
	-----	-----
Shareholders' equity:		
Class A common stock, par value \$.01, 150,000,000 shares authorized, 45,087,017 and 45,081,384 shares issued at December 31, 2000 and June 30, 2000, respectively	451	451
Preferred stock, par value \$.01, 1,055,000 shares authorized, no shares issued and outstanding at December 31, 2000 and June 30, 2000	--	--
Additional paid-in capital	273,484	272,710
	-----	-----
	273,935	273,161
Less: Treasury stock (at cost), 5,715,847 shares at December 31, 2000 and 5,674,278 shares at June 30, 2000	(128,876)	(128,493)
	-----	-----
	145,059	144,668
Retained earnings	286,517	245,841
	-----	-----
Total shareholders' equity	431,576	390,509
	-----	-----
Total liabilities and shareholders' equity	\$ 578,934	\$ 543,571
	=====	=====

See accompanying notes to consolidated financial statements.

</TABLE>

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY
Consolidated Statements of Operations
(Unaudited)
(Amounts in thousands, except per share data)

<TABLE>

<CAPTION>

	Three Months		Six Months	
	Ended December 31,		Ended December 31,	
	2000	1999	2000	1999
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Net sales	\$232,667	\$217,486	\$443,898	\$407,078
Cost of sales	124,930	113,587	236,452	214,658
	-----	-----	-----	-----
Gross profit	107,737	103,899	207,446	192,420
Operating expenses:				
Selling	41,622	36,591	79,592	70,049
General and administrative	29,244	26,792	57,681	51,146
	-----	-----	-----	-----
Operating income	36,871	40,516	70,173	71,225
Interest and other miscellaneous income, net	468	165	641	315
Interest and other related financing costs	189	237	385	586
	-----	-----	-----	-----
Income before income taxes	37,150	40,444	70,429	70,954
Income tax expense	14,043	15,611	26,622	27,388
	-----	-----	-----	-----
Net income	\$ 23,107	\$ 24,833	\$ 43,807	\$ 43,566

Per share data:
 - - - - -

Basic earnings per common share:

Net income per basic share	\$ 0.59	\$ 0.61	\$ 1.11	\$ 1.07
	=====	=====	=====	=====

Basic weighted average common shares outstanding	39,371	40,833	39,380	40,845
--	--------	--------	--------	--------

Diluted earnings per common share:

Net income per diluted share	\$ 0.58	\$ 0.59	\$ 1.09	\$ 1.04
	=====	=====	=====	=====

Diluted weighted average common shares outstanding	40,181	41,899	40,179	41,907
--	--------	--------	--------	--------

See accompanying notes to consolidated financial statements.
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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY
 Consolidated Statements of Cash Flows
 (Unaudited)
 (Dollars in thousands)

<TABLE>
 <CAPTION>

	Six Months Ended December 31,	
	2000	1999
	-----	-----
<S>	<C>	<C>
Operating activities:		
Net income	\$ 43,807	\$ 43,566
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,476	8,376
Compensation expense related to restricted stock award	52	617
Provision for deferred income taxes	(1,790)	(969)
Other non-cash (income) expense	(800)	141
Change in assets and liabilities, net of the effects from acquired and divested companies:		
Accounts receivable	3,065	2,829
Inventories	(4,122)	(4,773)
Prepaid and other current assets	(3,174)	(3,476)
Accounts payable	326	(4,046)
Accrued expenses	1,786	2,180
Other	101	(371)
	-----	-----
Net cash provided by operating activities	48,727	44,074
	-----	-----
Investing activities:		
Proceeds from the disposal of property, plant and equipment	4,313	44
Capital expenditures	(31,020)	(22,241)
Acquisition of retail businesses	(279)	(9,886)
Other	207	495
	-----	-----
Net cash used in investing activities	(26,779)	(31,588)
	-----	-----
Financing activities:		
Borrowings on revolving credit facilities	1,500	35,000
Payments on revolving credit facilities	(9,500)	(27,500)
Other payments on long-term debt and capital leases	(183)	(571)
Increase in deferred financing costs	--	(507)
Net proceeds from issuance of common stock	190	1,935
Dividends paid	(3,139)	(3,269)
Payments to acquire treasury stock	(383)	(12,043)

Net cash used in financing activities	(11,515)	(6,955)
Net increase (decrease) in cash and cash equivalents	10,433	(5,531)
Cash and cash equivalents at beginning of period	14,024	8,968
Cash and cash equivalents at end of period	\$ 24,457	\$ 14,499

See accompanying notes to consolidated financial statements.

</TABLE>

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY
Consolidated Statements of Shareholders' Equity
Six Months Ended December 31, 2000
(Unaudited)
(Dollars in thousands)

<TABLE>
<CAPTION>

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Total
	-----	-----	-----	-----	-----
<S> Balance at June 30, 2000	<C> \$ 451	<C> \$ 272,710	<C> \$(128,493)	<C> \$ 245,841	<C> \$ 390,509
Issuance of common stock upon exercise of stock options and restricted stock award compensation		242	--	--	242
Purchase of 41,570 shares of treasury stock	--	--	(383)	--	(383)
Tax benefit associated with the exercise of employee options and warrants	--	532	--	--	532
Dividends declared on common stock	--	--	--	(3,131)	(3,131)
Net income	--	--	--	43,807	43,807
Balance at December 31, 2000	\$ 451	\$ 273,484	\$(128,876)	\$ 286,517	\$ 431,576

See accompanying notes to consolidated financial statements.

</TABLE>

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

(1) 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 and its wholly-owned subsidiary Ethan Allen Inc. ("Ethan Allen") and Ethan Allen's subsidiaries. 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.

(2) INTERIM FINANCIAL PRESENTATION

All significant intercompany accounts and transactions have been

eliminated in the consolidated financial statements. In the opinion of the Company, all adjustments, consisting only of normal recurring accruals necessary for fair presentation, have been included in the financial statements. The results of operations for the three and six months ended December 31, 2000, are not necessarily indicative of results for the fiscal year. It is suggested that the interim consolidated financial statements are read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended June 30, 2000.

Certain reclassifications have been made to prior year financial information in order to conform to the current year's presentation. These changes were made for disclosure purposes only and did not have an impact on previously reported results of operations or shareholders' equity.

(3) NEW ACCOUNTING STANDARDS

In 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivatives and Hedging Activities" and in 2000, SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of No. 133." These statements require that all derivative instruments be recognized on the balance sheet at fair value effective July 1, 2000. Derivatives that are not hedges should be adjusted to fair value through earnings. For derivatives that are effective hedges, changes in fair value of the derivative should be recorded in either other comprehensive income or earnings. The ineffective portion of the derivative classified as a hedge will be immediately recognized in earnings. The Company adopted these standards as required beginning July 1, 2000. Upon review of the Company's current contracts, it was determined that the Company has no derivative instruments as defined under these standards.

(4) INVENTORIES

Inventories at December 31, 2000 and June 30, 2000 are summarized as follows (dollars in thousands):

	December 31, 2000 -----	June 30, 2000 -----
Finished goods	\$ 96,868	\$103,787
Work in process	21,501	19,233
Raw materials	43,577	35,986
	-----	-----
	\$161,946	\$159,006
	=====	=====

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Unaudited)

(5) CONTINGENCIES

The Company has been named as a Potentially Responsible Party ("PRP") for the cleanup of two sites currently listed on the National Priorities List ("NPL") under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), in connection with which the Company may be subject to future costs and/or liabilities. With respect to both of these sites, the Company 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 sites; however, liability under CERCLA may be joint and several. For one of the sites, the SRSNE Superfund Site in Southington, Connecticut, the remedial investigation is ongoing. A volume-based allocation of responsibility among the parties has been prepared, which includes other parties identified as PRP's at this site. The Company is also a settling defendant and is responsible, in part, for funding remedial design and construction activities at the Parker Landfill Superfund Site in Lyndonville, Vermont. Over ninety-five percent of these activities have been successfully completed. The Company believes that the resolution of these matters will not, either individually or in the aggregate, have a material adverse effect on its financial condition, results of operations or cash flows.

(6) Earnings Per Share

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2000	1999	2000	1999
Weighted average common shares outstanding for Basic calculation	39,371	40,833	39,380	40,845
Add: Effect of stock options and warrants	810	1,066	799	1,062
Weighted average common shares outstanding for diluted calculation	40,181	41,899	40,179	41,907

As of December 31, 2000, stock options to purchase 142,425 shares of common stock had an exercise price in excess of the average market price. These options have been excluded from the diluted earnings per share calculation since their effect is anti-dilutive.

(7) 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 businesses: wholesale and retail home furnishings. The wholesale home furnishings business is principally involved in the manufacture, sale and distribution of home furnishing products to a network of independently-owned and Ethan Allen-owned stores. The wholesale business consists of three operating segments; case goods, upholstery, and home accessories.

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Unaudited)

(7) SEGMENT INFORMATION (continued)

Wholesale profitability includes the wholesale gross margin, which is earned on wholesale sales to all retail stores, including Ethan Allen-owned stores. The retail home furnishings business sells home furnishing products through a network of Ethan Allen-owned stores. Retail profitability includes the retail gross margin, which is earned based on purchases from the wholesale business.

The operating segments follow the same accounting policies. 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.

The following table presents segment information for the three and six months ended December 31, 2000 and 1999 (dollars in thousands):

<TABLE>
<CAPTION>

	Three Months Ended December 31,		Six Months Ended December 31,	
	2000	1999	2000	1999
<S>	<C>	<C>	<C>	<C>
NET SALES:				
Case Goods	\$ 101,942	\$ 93,405	\$ 189,760	\$ 179,643
Upholstery	52,633	49,012	100,611	91,352
Home Accessories	22,396	24,979	44,723	45,347
Other (1)	936	1,098	3,064	4,454
Wholesale Net Sales	177,907	168,494	338,158	320,796

Retail	108,733	98,882	207,259	177,952
Other (2)	1,471	1,647	3,175	3,352
Elimination of inter-segment sales	(55,444)	(51,537)	(104,694)	(95,022)
Consolidated Total	\$ 232,667	\$ 217,486	\$ 443,898	\$ 407,078
OPERATING INCOME:				
Case Goods	\$ 29,794	\$ 32,128	\$ 57,063	\$ 62,665
Upholstery	15,735	14,856	30,228	27,743
Home accessories	6,995	7,906	14,460	14,272
Unallocated corporate expenses (3)	(23,840)	(21,648)	(46,648)	(42,788)
Wholesale Operating Income	28,684	33,242	55,103	61,892
Retail	6,603	6,814	12,638	9,617
Other (2)	(179)	186	(16)	538
Eliminations (4)	1,763	274	2,448	(822)
Consolidated Total	\$ 36,871	\$ 40,516	\$ 70,173	\$ 71,225
CAPITAL EXPENDITURES:				
Case Goods (5)	\$ 13,648	\$ 2,348	\$ 16,722	\$ 6,643
Upholstery	623	754	1,905	1,581
Home accessories	--	49	45	102
Other (6)	946	377	2,123	2,567
Wholesale Capital Expenditures	15,217	3,528	20,795	10,893
Retail	6,504	6,355	9,962	10,229
Other (2)	114	473	263	1,119
Acquisition of retail businesses	279	--	279	9,886
Consolidated Total	\$ 22,114	\$ 10,356	\$ 31,299	\$ 32,127

</TABLE>

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Unaudited)

(7) SEGMENT INFORMATION (continued)

	December 31, 2000	December 31, 1999
	-----	-----
TOTAL ASSETS:		
Case Goods	\$ 145,180	\$ 113,901
Upholstery	38,095	34,512
Home accessories	2,231	6,518
Corporate (7)	234,010	224,668
Wholesale Total Assets	419,516	379,599
Retail	174,686	156,680
Other (2)	8,614	6,579
Inventory Profit elimination (4)	(23,882)	(23,612)
Consolidated Total	\$ 578,934	\$ 519,246

(1) The Other category included in the wholesale business consists of the operating activity for indoor/outdoor furniture and the corporate office.

(2) The Other category includes miscellaneous operating activities.

(3) Unallocated corporate expenses primarily consist of corporate advertising costs, unreimbursed training costs, system development costs, and other corporate administrative charges.

(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.

- (5) Case goods capital expenditures includes the purchase of a manufacturing facility in Dublin, Virginia in October of 2000.
- (6) The Other category primarily includes the capital expenditures made by the corporate office for the Company's distribution operations.
- (7) Corporate assets primarily include assets from the corporate office and from the Company's distribution operations, including cash, receivables from independent dealers, finished goods inventory, property, plant and equipment, intangible assets, and deferred tax assets.

There are 29 independent retail stores located outside the United States. Approximately 2.3% of the Company's net sales are derived from sales to these retail stores.

(8) WHOLLY-OWNED SUBSIDIARY

The Company owns all of the outstanding stock of Ethan Allen, has no material assets other than its ownership of Ethan Allen stock, and conducts all significant operating transactions through Ethan Allen. The Company has guaranteed Ethan Allen's obligations under its Credit Agreement.

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(Unaudited)

(8) WHOLLY-OWNED SUBSIDIARY (continued)

The condensed balance sheets of Ethan Allen as of December 31, 2000 and June 30, 2000 are as follows (dollars in thousands):

	December 31, 2000	June 30, 2000
	-----	-----
Assets		

Current assets	\$250,277	\$235,782
Non-current assets	472,355	448,059
	-----	-----
Total assets	\$722,632	\$683,841
	=====	=====
Liabilities		

Current liabilities	\$ 99,864	\$106,595
Non-current liabilities	45,851	44,794
	-----	-----
Total liabilities	\$145,715	\$151,389
	=====	=====

A summary of Ethan Allen's operating activity for the three and six months ended December 31, 2000 and 1999, are as follows (dollars in thousands):

	Three Months Ended		Six Months Ended	
	2000	1999	2000	1999
	-----	-----	-----	-----
Net sales	\$232,667	\$217,486	\$443,898	\$407,078
Gross profit	107,737	103,899	207,446	192,420
Operating income	36,908	40,553	70,248	71,300
Interest expense and other related financing costs	189	237	385	586
Income before income tax expense	37,187	40,481	70,504	71,029
Net income	\$ 23,144	\$ 24,870	\$ 43,882	\$ 43,641

ITEM 2. MANagements DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The discussions set forth in this form 10-Q should be read in conjunction with the financial information included herein and the Company's Annual Report on Form 10-K for the year ended June 30, 2000. Management's discussion and analysis of financial condition and results of operations and other sections of this 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 words or phrases of similar expression. These forward-looking statements are subject to various assumptions, risk and uncertainties, including but not limited to, changes in political and economic conditions, demand for the Company's products, acceptance of new products, conditions in the various geographical markets where the Company does business, developments affecting the Company's products and to those 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.

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. The Company's wholesale sales are mainly derived from its three reportable operating segments; case goods, upholstery, and home accessories. The Company's retail sales are derived from sales from company-owned retail stores. See Note 7 to the Company's Consolidated Financial Statements for the three and six months ended December 31, 2000 and 1999. The components of consolidated revenues and operating income are as follows (dollars in millions):

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2000	1999	2000	1999
Revenue:				
Wholesale Revenue:				
Case goods	\$ 101.9	\$ 93.4	\$ 189.8	\$ 179.6
Upholstery	52.6	49.0	100.6	91.4
Home Accessories	22.4	25.0	44.7	45.3
Other	1.0	1.1	3.1	4.5
Total Wholesale Revenue	177.9	168.5	338.2	320.8
Total Retail Revenue	108.7	98.9	207.2	178.0
Other	1.5	1.6	3.2	3.3
Elimination of inter-segment sales	(55.4)	(51.5)	(104.7)	(95.0)
Consolidated Revenue	\$ 232.7	\$ 217.5	\$ 443.9	\$ 407.1
Operating Income:				
Wholesale Operating Income:				
Case goods	\$ 29.8	\$ 32.1	\$ 57.1	\$ 62.7
Upholstery	15.7	14.9	30.2	27.7
Home Accessories	7.0	7.9	14.4	14.3
Unallocated Corporate Expenses	(23.8)	(21.7)	(46.6)	(42.8)
Total Wholesale Operating Income	28.7	33.2	55.1	61.9
Total Retail Operating Income	6.6	6.8	12.6	9.6
Other	(0.2)	0.2	--	0.5
Eliminations	1.8	0.3	2.5	(0.8)
Consolidated Operating Income	\$ 36.9	\$ 40.5	\$ 70.2	\$ 71.2

Three Months Ended December 31, 2000 Compared to Three Months
Ended December 31, 1999

Consolidated revenue for the three months ended December 31, 2000 increased by \$15.2 million or 7.0% to \$232.7 million from \$217.5 million for the three months ended December 31, 1999. The growth in sales resulted from new product offerings, a selective price increase effective February 2000, and from an increase in comparable stores sales of 6.3% and from the addition of six net new company-owned stores since December 1999 and four during the last quarter.

Total wholesale revenue for the second quarter of fiscal year 2001 increased by \$9.4 million or 5.6% to \$177.9 million from \$168.5 million in the second quarter of fiscal year 2000.

Case goods revenue increased \$8.5 million or 9.1% to \$101.9 million for the three months ended December 31, 2000 as compared to \$93.4 million in the corresponding prior year period. This increase resulted from a selective price increase and new product introductions offered at more affordable price points, attracting a broader consumer base.

Upholstery revenue increased \$3.6 million or 7.3% to \$52.6 million in the second quarter of fiscal year 2001 as compared to \$49.0 million in the second quarter of fiscal year 2000. The increase in revenue of \$3.6 million was primarily attributable to new product and new fabric introductions and from a selective price increase.

Home accessories revenue decreased \$2.6 million or 10.4% to \$22.4 million in the second quarter of fiscal year 2001 as compared to \$25.0 million in the second quarter of fiscal year 2000. This decrease is attributable to the timing of the Annual Convention held this fall as compared to the prior year and from a new program put into place this quarter called 'Branding the Interior' of the stores. This program refers to the Company's plan to feature the best selling items in the most effective display settings. In preparation, a slowdown in orders occurred while many stores reduced their overall home accessory inventory items on display and for sale in the retail stores.

Total retail revenue from Ethan Allen-owned stores for the three months ended December 31, 2000 increased by \$9.8 million or 9.9% to \$108.7 million from \$98.9 million for the three months ended December 31, 1999. The increase in retail sales by Ethan Allen owned stores is attributable to an increase in comparable store sales of \$6.5 million, or 6.3%, and an increase in sales generated by newly opened or acquired stores of \$7.4 million, partially offset by closed stores, which generated \$4.1 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 December 31, 2000 as compared to 78 as of December 31, 1999.

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 second 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.

Gross profit increased by \$3.8 million or 3.7% to \$107.7 million in the second quarter of fiscal year 2001 from \$103.9 million in the second quarter of the prior year. The \$3.8 million increase in gross profit was mainly due to greater sales volume, a selective price increase effective February 2000 and a higher percentage of retail sales to total sales. Gross margin decreased to 46.3% in the second quarter of fiscal year 2001 from 47.8% in the prior year second quarter. Gross margin was negatively impacted by higher raw material and labor costs at the wholesale level. Changes in production scheduling and new product introductions increased costs, especially employee training. Higher costs were also incurred from the start up of the new case good facility in Dublin, Virginia and other plant expansions initiated to increase production capacity. Additionally, new product introductions offered at more attractive and affordable price points contributed to a lower gross margin.

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY

Operating expenses increased \$7.5 million or 11.8% to \$70.9 million or 30.5% of net sales in the current quarter as compared to \$63.4 million or 29.1% of net sales for the second quarter of fiscal year 2000. This increase was mainly due to the expansion of the retail segment resulting in the addition of six net new Ethan Allen-owned stores since December 1999 (four net new stores this quarter), from increased business for comparable Ethan Allen-owned stores, and from an increase in advertising this quarter.

Operating income for the three months ended December 31, 2000 was \$36.9 million or 15.9% of net sales compared to \$40.5 million or 18.6% of net sales for the three months ended December 31, 1999. This represents a decrease in operating income of \$3.6 million or 8.9%, which is primarily attributable to a lower gross margin as noted above, greater operating expenses resulting from the growth of the retail segment and an increase in advertising expenses this quarter, partially offset by higher sales volume, a selective price increase effective February 2000, and a higher percentage of retail sales to total sales.

Total wholesale operating income for the second quarter of fiscal year 2001 was \$28.7 million or 16.1% of net sales compared to \$33.2 million or 19.7% of net sales in the second quarter of fiscal year 2000. Wholesale operating income decreased \$4.5 million or 13.6% this quarter.

Case goods operating income decreased \$2.3 million or 7.2% to \$29.8 million for the second quarter of fiscal year 2001 over the corresponding prior year period mainly due to higher labor and material costs, resulting, in part from the introduction of new products at lower margins, changes in production scheduling and product transfers between manufacturing facilities, and from the start up of the Dublin, Virginia manufacturing facility and other capital expansion projects.

Upholstery operating income increased \$0.8 million or 5.4% to \$15.7 million in the second quarter of fiscal year 2001 as compared to \$14.9 million in the second quarter of fiscal year 2000. This increase resulted from higher sales volume and a selective price increase.

Home accessories operating income decreased \$0.9 million or 11.4% to \$7.0 million in the second quarter of fiscal year 2001 as compared to \$7.9 million in the second quarter of fiscal year 2000. Operating income for home accessories decreased due to lower sales volume caused by the timing of the Annual Convention and 'Branding the Interior' program launched this quarter, offset in part, by the February 2000 selective price increase.

Operating income for the retail segment decreased by \$0.2 million in the three months ended December 31, 2000 to \$6.6 million or 6.1% of net sales from \$6.8 million or 6.9% of net sales for the three months ended December 31, 1999. The slight decrease in retail operating income by Ethan Allen-owned stores is primarily attributable to higher operating expenses related to the addition of six net new stores since December 1999 (four net new stores this quarter) and higher compensation costs necessary to strengthen the staffing of the retail division, partially offset by higher sales volume, a selective price increase effective February 2000, and a higher percentage of retail sales to total sales.

Interest expense for the three months ended December 31, 2000 remained consistent with the second quarter of last year at \$0.2 million.

Income tax expense of \$14.0 million was recorded in the second quarter as compared to \$15.6 million in the prior year second quarter. The Company's effective tax rate was 37.8% for the second quarter of fiscal year 2001 and 38.6% for the second quarter of fiscal year 2000. The decline in the effective income tax rate in the current quarter as compared to the prior year quarter resulted from the utilization of various state income tax credits.

For the three months ended December 31, 2000, the Company recorded net income of \$23.1 million, a decrease of 6.9%, compared to \$24.8 million for the three months ended December 31, 1999. Earnings per diluted share of \$0.58 decreased 1.7% or \$0.01 per diluted share in the quarter from \$0.59 per diluted share in the prior year quarter.

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Six Months Ended December 31, 2000 Compared to
Six Months Ended December 31, 1999

Consolidated revenue for the six months ended December 31, 2000 increased by \$36.8 million or 9.0% to \$443.9 million from \$407.1 million for the six months ended December 31, 1999. The growth in sales resulted from new product offerings, a selective price increase effective February 2000, an increase in comparable stores sales of 12.9% and from the addition of six net new company-owned stores since December 1999.

Total wholesale revenue for the six month period in fiscal year 2001 increased by \$17.4 million or 5.4% to \$338.2 million from \$320.8 million in the six month period of fiscal year 2000.

Case goods revenue increased \$10.2 million or 5.7% to \$189.8 million for the six months ended December 31, 2000 as compared to \$179.6 million in the corresponding prior year period due to a selective price increase and new product introductions offered at more affordable price points, offset by fewer production days in the current six month period as compared to the comparable prior year period.

Upholstery revenue increased \$9.2 million or 10.1% to \$100.6 million for the six months ending December 31, 2000 as compared to \$91.4 million in the six months ending December 31, 1999. The increase in revenue of \$9.2 million resulted from new product and new fabric introductions, more attractive price points on new product offerings, and from a selective price increase.

Home accessories revenue decreased \$0.6 million or 1.3% to \$44.7 million in the first six months fiscal year 2001 as compared to \$45.3 million in the first six months of fiscal year 2000. This decrease is attributable to the timing of the Annual Convention held this fall as compared to the prior year and from a new program put into place during the three months ended December 31,

2000 called 'Branding the Interior' of the stores. This program refers to the Company's plan to feature the best selling items in the most effective display settings. In preparation, a slowdown in orders occurred while many stores reduced their overall home accessory inventory items on display and for sale in the retail stores.

Total retail revenue from Ethan Allen-owned stores for the six months ended December 31, 2000 increased by \$29.2 million or 16.4% to \$207.2 million from \$178.0 million for the six months ended December 31, 1999. Comparable store sales increased 12.9% reflecting one additional delivery day included in the current six months over the comparable prior year period. The increase in retail sales by Ethan Allen-owned stores is attributable to a \$22.2 million increase in comparable store sales, an increase in sales generated by newly opened or acquired stores of \$13.2 million, and the gain on the sale of retail stores to an independent dealer of \$0.8 million, partially offset by closed stores, which generated \$7.0 million less sales in fiscal year 2001 as compared to fiscal year 2000.

Gross profit increased by \$15.0 million or 7.8% to \$207.4 million in the six months ending December 31, 2000 from \$192.4 million in the six months ending December 31, 1999. The \$15.0 million increase in gross profit was mainly due to greater sales volume, a selective price increase effective February 2000 and a higher percentage of retail sales to total sales. Gross margin decreased to 46.7% in the first half of fiscal year 2001 from 47.3% in the first half of the prior year. Gross margin was negatively impacted by higher raw material and labor costs at the wholesale level. Changes in production scheduling and new product introductions have increased costs, especially employee training. Higher costs were also incurred from the start up of the new case good facility in Dublin, Virginia and other plant expansions initiated to increase production capacity. Additionally, new product introductions offered at more attractive and affordable price points contributed to a lower gross margin.

Operating expenses increased \$16.1 million or 13.3% to \$137.3 million or 30.9% of net sales in the six months ended December 31, 2000 compared to \$121.2 million or 29.8% of net sales for the six months ended December 31, 1999. This increase is mainly attributable to the expansion of the retail segment resulting in the addition of six net new Ethan Allen-owned stores since December 1999, from increased business for comparable Ethan Allen-owned stores, and from an increase in advertising during the last three months.

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY

Operating income for the six months ended December 31, 2000 was \$70.2 million or 15.8% of net sales compared to \$71.2 million or 17.5% of net sales for the six months ended December 31, 1999. This represents a decrease in operating income of \$1.0 million or 1.4%, which is primarily attributable to a lower gross margin as noted above, greater operating expenses resulting from the growth of the retail segment and an increase in advertising expenses, partially offset by higher sales volume, a selective price increase effective February 2000, and a higher percentage of retail sales to total sales.

Total wholesale operating income for the first half of fiscal year 2001 was \$55.1 million or 16.3% of net sales compared to \$61.9 million or 19.3% of net sales in the first half of fiscal year 2000. Wholesale operating income decreased \$6.8 million or 11.0%.

Case goods operating income decreased \$5.6 million or 8.9% to \$57.1 million for the first half of fiscal year 2001 over the corresponding prior year period mainly due to higher labor and material costs resulting, in part from changes in production scheduling between manufacturing facilities, fewer production days in the six months ended December 31, 2000 as compared to the comparable prior year period, the start up of the Dublin, Virginia case good facility and the implementation of capital expansion projects, and the introduction of new products at lower margins.

Upholstery operating income increased \$2.5 million or 9.0% to \$30.2 million in the first half of fiscal year 2001 as compared to \$27.7 million in the first half of fiscal year 2000. The increase resulted from higher sales volume, a selective price increase, and slightly lower manufacturing costs associated with higher production levels.

Home accessories operating income increased \$0.1 million or 0.7% to \$14.4 million in the first half of fiscal year 2001 as compared to \$14.3 million in the first half of fiscal year 2000. Operating income for home accessories remained consistent with the prior year period due to comparable prior year sales volume, resulting in part, from the timing of the Annual Convention and 'Branding the Interior' program launched during the last three months, partially offset by the February 2000 selective price increase.

Operating income for the retail segment increased by \$3.0 million in the six months ended December 31, 2000 to \$12.6 million or 6.1% of net sales

from \$9.6 million or 5.4% of net sales from the six months ended December 31, 1999. The increase in retail operating income by Ethan Allen-owned stores is primarily attributable to increased sales volume, a selective price increase effective February 2000, gain recorded on the sale of retail stores, and a higher percentage of retail sales to total sales, offset by higher operating expenses related to the addition of six net new stores since December 1999 and higher compensation costs necessary to strengthen the staffing of the retail division.

Interest expense for the six months ended December 31, 2000 decreased \$0.2 million to \$0.4 million from \$0.6 million for the six months ended December 31, 1999. The decrease in interest expense is due to lower debt balances outstanding and lower amortization of deferred financing costs.

Income tax expense of \$26.6 million was recorded in the first half as compared to \$27.4 million in the prior year first half. The Company's effective tax rate was 37.8% for the first half of fiscal year 2001 and 38.6% for the first half of fiscal year 2000. The decline in the effective income tax rate in the current six months compared to the prior year six months resulted from the utilization of various state income tax credits.

For the six months ended December 31, 2000, the Company recorded net income of \$43.8 million, an increase of 0.5%, compared to \$43.6 million for the six months ended December 31, 1999. Earnings per diluted share of \$1.09 increased 4.8% or \$0.05 per diluted share in the current six months from \$1.04 per diluted share in the prior year.

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY

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 \$48.7 million for the six months ended December 31, 2000. The increase in net cash provided by operating activities resulted from a change in working capital requirements for the six months ended December 31, 2000 compared to the six months ended December 31, 1999. Total debt outstanding at December 31, 2000 was \$9.7 million. There were no revolving loans outstanding under the Credit Agreement. As of December 31, 2000, there were \$16.7 million of trade and standby letters of credit outstanding.

During the six months ended December 31, 2000, capital spending, exclusive of retail acquisitions, totaled \$31.0 million as compared to \$22.2 million in the six months ended December 31, 1999. Capital expenditures made during the six months ended December 31, 2000 primarily relate to (i) the purchase of a manufacturing facility in Dublin, Virginia, (ii) manufacturing plant expansions in Boonville, New York and Andover, Maine, (iii) manufacturing equipment purchases and upgrades, (iv) the expansion of a distribution facility in Kentland, Indiana, and (v) new store construction and interior redesigns. Capital expenditures, exclusive of acquisitions, for fiscal year 2001 are expected to be approximately \$55.0 million. The Company anticipates that cash from operations will be sufficient to fund this level of capital expenditures.

As of December 31, 2000, aggregate scheduled maturities of long-term debt for each of the next five fiscal years are \$0.1 million, \$0.1 million, \$0.1 million, \$4.7 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 over the next twelve months. As of December 31, 2000, the Company had working capital of \$148.9 million and a current ratio of 2.47 to 1.

The Company may from time to time, either directly or through agents, repurchase its common stock in the open market through negotiated purchases or otherwise, at prices and on terms satisfactory to the Company. Depending on market prices and other conditions relevant to the Company, such purchases may be discontinued at any time. During the six months ended December 31, 2000, the Company did not purchase any of its common shares through the open market.

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ITEM 3. 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 roll-over 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. Although the Company did not have any revolving loans outstanding under the Credit Agreement as of December 31, 2000, the Company had \$0.3 million of short term debt outstanding and \$9.4 million of total long term debt outstanding, including capital lease obligations.

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

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

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PART II. OTHER INFORMATION

ITEM 1. - LEGAL PROCEEDINGS

There has been no change to matters discussed in Business-Legal Proceedings in the Company's Form 10-K as filed with the Securities and Exchange Commission on September 13, 2000.

Item 2. - CHANGES IN SECURITIES

There has been no change to matters discussed in Description and Ownership of Capital Stock in the Company's Form 10-K as filed with the Securities and Exchange Commission on September 13, 2000.

Item 3. - DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the annual shareholders' meeting held on November 16, 2000, the following proposals were submitted to a vote:

1. The election of a director to a term expiring in 2003; William B. Sprague (votes for 35,382,767, votes against 0, withheld 245,837). The terms of Clinton A. Clark, Kristin Gamble and Edward H. Meyer will continue until the annual shareholders meeting in 2001. The terms of M. Farooq Kathwari and Horace G. McDonell will continue until the annual shareholders meeting in 2002.
2. Ratification of the appointment of KPMG LLP as independent auditors for fiscal year 2001 (votes for 35,507,556, votes against 30,073, withheld 90,975).

Item 5. - OTHER INFORMATION

None.

Item 6. - EXHIBITS AND REPORTS ON FORM 8-K

None.

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SIGNATURES

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

ETHAN ALLEN INTERIORS INC.

(Registrant)

DATE: 02/14/01

BY: /s/ M. Farooq Kathwari

M. Farooq Kathwari
Chairman of the Board
President and Chief
Executive Officer
(Principal Executive and Financial
Officer)

DATE: 02/14/01

BY: /s/ Michele Bateson

Michele Bateson
Corporate Controller
(Principal Accounting Officer)