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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2003

or

[] TRANSITION REPORT PURSUANT TO SECTIONS 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 or organization)	(I.R.S. Employer ID No.)

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.

[X] Yes [ ] No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

[X] 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.

As of September 30, 2003, there were 37,250,886 shares of Common Stock, par value $.01 outstanding.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2003 (UNAUDITED)	June 30, 2003
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	$ 129,485	$ 81,856
Accounts receivable, less allowance for doubtful accounts of $1,469 at September 30, 2003 and $1,490 at June 30, 2003	28,138	26,439
Inventories, net (note 4)	190,302	198,212
Prepaid expenses and other current assets	29,866	30,779
Deferred income taxes	22,151	22,976
Total current assets	399,942	360,262

Property, plant and equipment, net	282,981	289,423
Intangible assets, net (notes 6 and 7)	78,926	78,939
Other assets	2,508	2,944
	---------	---------
Total assets	$ 764,357	$ 731,568
	=========	=========
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt and capital lease obligations	$ 977	$ 996
Customer deposits	62,450	55,939
Accounts payable	32,680	25,375
Accrued compensation and benefits	29,129	29,308
Accrued expenses and other current liabilities (note 5)	24,806	22,808
	---------	---------
Total current liabilities	150,042	134,426
Long-term debt	9,180	9,222
Other long-term liabilities	2,311	2,682
Deferred income taxes	48,728	47,539
	---------	---------
Total liabilities	210,261	193,869
Shareholders' equity:		
Class A common stock, par value $.01, 150,000,000 shares authorized; 45,502,396 shares issued at September 30, 2003 and 45,449,086 shares issued at June 30, 2003	454	454
Class B common stock, par value $.01, 600,000 shares authorized; no shares issued and outstanding at September 30, 2003 and June 30, 2003	-	-
Preferred stock, par value $.01, 1,055,000 shares authorized; no shares issued and outstanding at September 30, 2003 and June 30, 2003	-	-
Additional paid-in capital	282,331	281,140
	---------	---------
	282,785	281,594
Less: Treasury stock (at cost), 8,251,510 shares at September 30, 2003 and June 30, 2003	(204,931)	(204,931)
Retained earnings	475,656	460,456
Accumulated other comprehensive income (note 10)	586	580
	---------	---------
Total shareholders' equity	554,096	537,699
	---------	---------
Total liabilities and shareholders' equity	$ 764,357	$ 731,568
	=========	=========

See accompanying notes to consolidated financial statements.
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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(In thousands, except per share data)

	Three Months Ended September 30, 2003	2002
<S>	<C>	<C>
Net sales	$222,765	$216,529
Cost of sales	114,322	109,814
Gross profit	108,443	106,715
Operating expenses:		
Selling	44,609	42,890
General and administrative	35,522	31,982
Restructuring and impairment charge (note 5)	(264)	(92)
Total operating expenses	79,867	74,780
Operating income	28,576	31,935
Interest and other miscellaneous income, net	2,211	524
Interest and other related financing costs	141	173
Income before income taxes	30,646	32,286
Income tax expense	11,707	12,204
Net income	$ 18,939	$ 20,082
PER SHARE DATA (NOTE 9):		
Basic earnings per common share:		
Net income per basic share	$ 0.51	$ 0.53
Basic weighted average common shares	37,227	37,986
Diluted earnings per common share:		
Net income per diluted share	$ 0.50	$ 0.52

	2003	2002
Diluted weighted average common shares	38,247	38,915

See accompanying notes to consolidated financial statements.
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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In thousands)

<S>	Three Months Ended September 30, 2003 <C>	2002 <C>
Operating activities:		
Net income	$ 18,939	$ 20,082
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,265	5,033
Compensation expense (benefit) related to restricted stock award	66	(430)
Provision (benefit) for deferred income taxes	2,014	1,912
Restructuring and impairment charge	(264)	(92)
Other non-cash (income) expense	(1,104)	(426)
Change in assets and liabilities, net of the effects of acquired and divested businesses:		
Accounts receivable	(1,699)	3,354
Inventories	7,910	5,125
Prepaid and other current assets	3,681	(2,383)
Other assets	331	668
Customer deposits	6,511	6,746
Accounts payable	3,457	(5,251)
Income taxes payable	4,112	9,426
Accrued expenses and other current liabilities	1,137	(2,397)
Other long-term liabilities	(371)	(57)
Net cash provided by operating activities	49,985	41,310
Investing activities:		
Proceeds from the disposal of property, plant and equipment	3,425	2,367
Capital expenditures	(4,010)	(9,309)
Acquisitions	-	(9,930)
Other	35	147

Net cash used in investing activities	(550)	(16,725)
Financing activities:		
Other payments on long-term debt and capital leases	(53)	(3,345)
Net proceeds from issuance of common stock	861	219
Dividends paid	(2,614)	(2,309)
Payments to acquire treasury stock	-	(29,578)
Net cash used in financing activities	(1,806)	(35,013)
Net increase (decrease) in cash and cash equivalents	47,629	(10,428)
Cash and cash equivalents - beginning of period	81,856	75,688
Cash and cash equivalents - end of period	$129,485	$ 65,260

See accompanying notes to consolidated financial statements.
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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
THREE MONTHS ENDED SEPTEMBER 30, 2003
(UNAUDITED)
(In thousands, except share data)

<S>	Common Stock <C>	Additional Paid-in Capital <C>	Treasury Stock <C>	Accumulated Other Comprehensive Income <C>	Retained Earnings <C>	Total <C>
Balance at June 30, 2003	$454	$281,140	$(204,931)	$580	$460,456	$537,699
Issuance of 53,310 shares of common stock upon the exercise of stock options and restricted stock award compensation	-	927	-	-	-	927
Tax benefit associated with exercise of employee stock options	-	264	-	-	-	264
Dividends declared on common stock	-	-	-	-	(3,739)	(3,739)
Other comprehensive income (note 10)	-	-	-	6	-	6
Net income	-	-	-	-	18,939	18,939
Total comprehensive income						

18,945

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Balance at September 30, 2003	$454	$282,331	$(204,931)	$586	$475,656	$554,096

See accompanying notes to consolidated financial statements.
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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 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 months ended September 30, 2003 are not necessarily indicative of results for the fiscal year. It is suggested that the interim consolidated financial statements be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended June 30, 2003.

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) EMPLOYEE STOCK PLANS

The Company's 1992 Stock Option Plan (the "Plan") is accounted for in accordance with the recognition and measurement provisions of Accounting Principles Board Opinion ("APB") No. 25, Accounting for Stock Issued to Employees, and related interpretations, which employs the intrinsic value method of measuring compensation cost. Accordingly, compensation expense is not recognized for fixed stock options if the exercise price of the option equals the fair value of the underlying stock at the grant date. For certain stock-based awards, where the exercise price is equal to zero, the fair value of the award, measured at the grant, is amortized to compensation expense on a straight-line basis over the vesting period. In addition, other stock-based award programs provided for under the Plan may also result in the recognition of compensation expense (benefit) to the extent they are deemed to be variable (as that term is defined in APB No. 25) in nature.

Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation, encourages recognition of the fair value of all stock-based awards on the date of grant as expense over the vesting period. However, as permitted by SFAS No. 123, the Company continues to apply the intrinsic value-based method of accounting prescribed by APB Opinion No. 25 and discloses certain pro-forma amounts as if the fair value approach of SFAS No. 123 had been applied.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of SFAS No. 123, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this standard amends the disclosure requirements of SFAS No. 123 by requiring more prominent pro-forma disclosures in both the annual and interim financial statements, which are included in the following table.

The following table illustrates the effect on net income and earnings per share if the fair value recognition provisions of SFAS No. 123 had been applied to all outstanding and unvested awards in each period. The Company employs the Black-Scholes option-pricing model in estimating the fair value of stock options granted.

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002
Net income as reported	$18,939	$20,082
Add: Stock-based employee compensation expense (benefit) included in reported net income, net of related tax effects	41	(267)
Deduct: Stock-based employee compensation expense determined under the fair value-based method for all awards granted since July 1, 1995, net of related tax effects	(1,061)	(191)
Pro forma net income	$17,919	$19,624
Earnings per share:		
Basic - as reported	$ 0.51	$ 0.53
Basic - pro forma	$ 0.48	$ 0.52
Diluted - as reported	$ 0.50	$ 0.52
Diluted - pro forma	$ 0.47	$ 0.51

(4) INVENTORIES

Inventories at September 30, 2003 and June 30, 2003 are summarized as follows (in thousands):

	September 30, 2003	June 30, 2003
Finished goods	$146,728	$147,704
Work in process	13,046	15,333
Raw materials	30,528	35,175
	$190,302	$198,212

Inventories are presented net of a related valuation allowance of $4.7 million at September 30, 2003 and June 30, 2003.

(5) RESTRUCTURING AND IMPAIRMENT CHARGES

In recent years, the Company has developed, announced 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 third quarter of fiscal 2003, the Company announced a plan to close three of its smaller manufacturing facilities. Closure of these facilities resulted in a headcount reduction totaling approximately 580 employees; 340 employees effective April 21, 2003, and 240 employees throughout the last quarter of fiscal 2003 and the first quarter of fiscal 2004. A pre-tax restructuring and impairment charge of $13.4 million was recorded for costs associated with these plant closings, of which $4.5 million related to employee severance and benefits and other plant exit costs, and $8.9 million related to fixed asset impairment charges, primarily for real property and machinery and equipment associated with the closed facilities. During

the quarter ended September 30, 2003, adjustments totaling $0.2 million were recorded to reverse certain of these previously established accruals which are no longer required.

In the fourth quarter of fiscal 2002, the Company announced a plan that 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 a headcount reduction totaling approximately 220 employees; 150 employees effective June 29, 2002, and 70 employees throughout 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 related to employee severance and benefits and other plant exit costs, and $3.1 million related to fixed asset impairment charges, primarily for real property and machinery and equipment associated with the closed facilities. During the quarter ended March 31, 2003, adjustments totaling $0.2 million were recorded to reverse certain of these previously established accruals which are no longer required.

In the fourth quarter of fiscal 2001, the Company announced a plan that involved the closure of three of its manufacturing facilities and a headcount reduction totaling approximately 350 employees effective August 6, 2001. A pre-tax restructuring and impairment charge of $6.9 million was recorded for costs associated with these plant closings, of which $3.3 million related to employee severance and benefits and other plant exit costs, and $3.6 million related to fixed asset impairment charges, primarily for real property and machinery and equipment associated with the closed facilities. During the quarter ended September 30, 2002, adjustments totaling $0.1 million were recorded to reverse certain of these previously established accruals which are no longer required.

As of September 30, 2003, restructuring reserves totaling $0.3 million were included in the Consolidated Balance Sheet as an accrued expense within current liabilities. In addition, total impairment charges of $15.6 million ($8.9 million, $3.1 million and $3.6 million in 2003, 2002 and 2001, respectively) were recorded to reduce certain property, plant and equipment to net realizable value.

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

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Fiscal 2003 Restructuring

	Original Charges	Cash Payments	Non-cash Utilized	Total
Employee severance and other related payroll and benefit costs	$ 4,339	$(3,876)	$ (227)(a)	$ 236
Plant exit costs and other	150	(150)	-	-
Write-down of long-lived assets	8,884	-	(8,884)	-
Balance as of September 30, 2003	$13,373	$(4,026)	$(9,111)	$ 236

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<TABLE>

Fiscal 2002 Restructuring

	Original Charges	Cash Payments	Non-cash Utilized	Total
Employee severance and other related payroll and benefit costs	$ 1,847	$(1,757)	$ (90)(a)	$ -
Plant exit costs and other	171	(38)	(94)(a)	39
Write-down of long-lived assets	3,105	-	(3,105)	-
Balance as of September 30, 2003	$ 5,123	$(1,795)	$(3,289)	$ 39

</TABLE>

<TABLE>

Fiscal 2001 Restructuring

	Original Charges	Cash Payments	Non-cash Utilized	Total
Employee severance and other related payroll and benefit costs	$ 2,974	$(2,916)	$ (58)(a)	$ -
Plant exit costs and other	332	(295)	(37)(a)	-
Write-down of long-lived assets	3,600	-	(3,600)	-
Balance as of September 30, 2003	$ 6,906	$(3,211)	$(3,695)	$ -

(a) Amounts represent the reversal of certain previously established accruals which are no longer required.

</TABLE>

(6) BUSINESS ACQUISITIONS

During the quarter ended September 30, 2002, the Company acquired thirteen Ethan Allen retail stores from independent dealers for total cash consideration of approximately $10.6 million. As a result of these acquisitions, the Company (i) recorded additional inventory of $8.9 million and other assets of $5.6 million, and (ii) assumed customer deposits of $3.8 million, third-party debt of $4.4 million and other liabilities of $3.8 million. As of September 30, 2003, $3.4 million of the third-party debt had been repaid by the Company. Goodwill associated with these acquisitions totaled $8.1 million and represents the premium paid to the sellers related to the acquired book of business (i.e. market presence) and other fair value adjustments to the assets acquired and liabilities assumed. Further discussion of the Company's intangible assets can be found in Note 7. No acquisitions occurred during the quarter ended September 30, 2003.

A summary of the Company's allocation of purchase price for the three months ended September 30, 2003 and 2002 is provided below (in thousands):

Three Months Ended
September 30,

	2003	2002
Nature of acquisition	N/A	13 stores
Cash consideration	$ -	$ 10,550
Assets acquired and liabilities assumed:		
Inventory	-	8,885
PP&E and other assets	-	5,611
Customer deposits	-	(3,841)
Third-party debt	-	(4,433)
A/P and other liabilities	-	(3,755)
Goodwill	$ -	$ 8,083

(7) GOODWILL AND OTHER INTANGIBLE ASSETS

On July 1, 2001, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets. As of September 30, 2003 and June 30, 2003, the Company had goodwill, including product technology, (net of accumulated amortization) of $59.2 million and other identifiable intangible assets (net of accumulated amortization) of $19.7 million.

Goodwill in the wholesale and retail segments was $27.5 million and $31.7 million, respectively, at September 30, 2003 and June 30, 2003.

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. In connection with the adoption of Statement 142, the Company 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 as a result of the adoption of SFAS No. 142.

(8) 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 under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA").

The Company believes it 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 been notified by the State of New York that it may be a PRP in a separate, unrelated matter. However, 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.

(9) EARNINGS PER SHARE

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

	Three Months Ended September 30, 2003	2002
Weighted average common shares outstanding for basic calculation	37,227	37,986
Add: Dilutive effect of stock options and warrants	1,020	929
Weighted average common shares outstanding, adjusted for diluted calculation	38,247	38,915

As of September 30, 2003 and 2002, stock options to purchase 69,793 shares and 88,825 shares of common stock, respectively, had exercise prices which exceeded the average market price for the corresponding period. These options have been excluded from the respective diluted earnings per share calculation as their impact is anti-dilutive.

(10) COMPREHENSIVE INCOME

Total comprehensive income represents the sum of net income and items of "other comprehensive income or loss" that are reported directly in equity. Such items may include foreign currency translation adjustments, minimum pension liability adjustments, fair value adjustments on certain derivative instruments, and unrealized gains and losses on certain investments in debt and equity securities. The Company has reported its total comprehensive income in the Consolidated Statement of Shareholders' Equity.

The Company's other comprehensive income, which is attributable solely to foreign currency translation adjustments, was $0.6 million at both September 30, 2003 and June 30, 2003. This amount, as well as the Company's accumulated other comprehensive income included in equity, are the result of changes in foreign currency exchange rates related to the operations of 7 Ethan Allen-owned retail stores located in Canada. Foreign currency translation adjustments exclude income tax expense (benefit) given that the earnings of non-U.S. subsidiaries are deemed to be reinvested for an indefinite period of time.

(11) SEGMENT INFORMATION

The Company's reportable segments are strategic business areas which operate separately but which both offer the Company's complete line of home furnishings through their own distinctive services. The Company's operations are classified into two segments: wholesale and retail.

The wholesale segment is principally involved in the development of the Ethan Allen brand, which encompasses the design, manufacture, domestic and off-shore sourcing, sale and distribution of a full range of home furnishing products to a network of independently-owned and Ethan Allen-owned stores as well as related marketing and brand awareness efforts. 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 furnishings 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.

While the manner in which the Company's home furnishings are marketed and sold is consistent, the nature of the underlying recorded sales (i.e. wholesale versus retail) and the specific services that each operating segment provides (i.e. wholesale manufacture and distribution versus retail sales) are different. Within the wholesale segment, the Company maintains revenue information according to each respective product line (i.e. case goods, upholstery, or home accessories and other).

A breakdown of wholesale sales by these product lines for the three months ended September 30, 2003 and 2002 is provided below:

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002
Case Goods	53%	54%
Upholstered Products	33	32
Home Accessories and Other	14	14
	100%	100%

Similar information by product line is not available within the retail segment as it is not practicable. However, because wholesale production and sales are matched to incoming orders, the Company believes that the allocation of retail sales would be similar to that of the wholesale segment.

The Company evaluates performance of the respective segments based upon revenues and operating income. Inter-segment eliminations result, primarily, from the wholesale sale of inventory between segments, including the related profit margin. Inter-segment eliminations also include items not allocated to reportable segments.

The following table presents segment information for the three months ended September 30, 2003 and 2002 (in thousands):

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002
NET SALES:		
Wholesale segment	$158,919	$157,846
Retail segment	132,656	120,479
Elimination of inter-company sales	(68,810)	(61,796)
Consolidated Total	$222,765	$216,529
OPERATING INCOME:		
Wholesale segment	$ 26,976	$ 28,969
Retail segment	205	3,047
Elimination (1)	1,395	(81)
Consolidated Total	$ 28,576	$ 31,935
CAPITAL EXPENDITURES:		
Wholesale segment	$ 1,868	$ 3,963
Retail segment	2,142	5,346
Acquisitions (2)	-	9,930
Consolidated Total	$ 4,010	$ 19,239

	September 30, 2003	June 30, 2003
TOTAL ASSETS:		
Wholesale segment	$496,290	$465,017
Retail segment	303,811	303,061
Inventory profit elimination (3)	(35,744)	(36,510)
Consolidated Total	$764,357	$731,568

(1) Adjustment represents the change in the elimination entry for profit in ending inventory.

(2) There were no acquisitions completed during the three months ended September 30, 2003. For the three months ended September 30, 2002, acquisitions include the purchase of 13 retail stores.

(3) Inventory profit elimination reflects the embedded wholesale profit in the Ethan Allen-owned store inventory that has not been realized. These profits will be realized when inventory is shipped to the retail customer.

At September 30, 2003, there were 28 Ethan Allen retail stores located outside the United States, of which 21 were independently-owned. Approximately 2% of the Company's net sales for the three month period ended September 30, 2003 and 2002 were derived from sales to non-domestic, independently-owned retail stores.

ITEM 2. MANAGEMENT'S 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, 2003. Management's discussion and analysis of financial condition and results of operations and other sections of this quarterly report contain forward-looking statements relating to 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, 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. The Company conducts its required annual impairment test during the fourth quarter of each fiscal year. The impairment test uses a discounted cash flow model 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.

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. Cost is determined based solely on those charges incurred in the acquisition and production of the related inventory (i.e. material, labor and manufacturing overhead costs). 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 all of the following have occurred: persuasive evidence of a sales arrangement exists (e.g. a wholesale purchase order or retail sales invoice); the sales arrangement specifies a fixed or determinable sales price; product is shipped or services are provided to the customer; and collectability is reasonably assured. 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.

RESULTS OF OPERATIONS

Ethan Allen's revenues are comprised of (i) wholesale sales to independently-owned and Company-owned retail stores and (ii) retail sales of Company-owned stores. See Note 11 to the Company's Consolidated Financial Statements for the three months ended September 30, 2003 and 2002. The components of consolidated revenues and operating income were as follows (in millions):

	Three Months Ended September 30, 2003	2002
REVENUE:		
Wholesale segment	$158.9	$157.8
Retail segment	132.7	120.5
Elimination of inter-segment sales	(68.8)	(61.8)
Consolidated Revenue	$222.8	$216.5

	Three Months Ended September 30, 2003	2002
OPERATING INCOME:		

Wholesale segment	$ 27.0	$ 29.0
Retail segment	0.2	3.0
Elimination	1.4	(0.1)
Consolidated Operating Income	$ 28.6	$ 31.9

QUARTER ENDED SEPTEMBER 30, 2003 COMPARED TO QUARTER ENDED SEPTEMBER 30, 2002

Consolidated revenue for the three months ended September 30, 2003 increased by $6.3 million, or 2.9%, to $222.8 million from $216.5 million for the three months ended September 30, 2002. Net sales have increased due to the continued expansion and strategic re-positioning of the Company's retail segment coupled with an increase in the Company's incoming order rate stemming from a modest improvement in consumer confidence and a strengthening of the U.S. economy during the past three months.

Total wholesale revenue for the first quarter of fiscal 2004 increased by $1.1 million, or 0.7%, to $158.9 million from $157.8 million in the first quarter of fiscal 2003. As stated previously, the incoming order rate was positively impacted by improved consumer spending habits, particularly during the last month of the quarter, and a strengthening of the U.S. economy during the period. To a lesser extent, wholesale sales volume was also positively impacted by one additional production day in the current year quarter as compared to the prior year.

Total retail revenue from Ethan Allen-owned stores for the three months ended September 30, 2003 increased by $12.2 million, or 10.1%, to $132.7 million from $120.5 million for the three months ended September 30, 2002. The increase in retail sales by Ethan Allen-owned stores was attributable to an increase in sales generated by newly opened or acquired stores of $16.6 million, and an increase in comparable store delivered sales of $0.7 million, or 0.6%, partially offset by a decrease resulting from closed stores, which generated $5.1 million fewer sales in the first quarter of fiscal 2004 as compared to fiscal 2003. The number of Ethan Allen-owned stores increased to 120 as of September 30, 2003 as compared to 116 as of September 30, 2002. During that twelve month period, the Company acquired 3 stores from independent dealers, relocated 2 stores, closed 3 stores and opened 4 new stores, including the first dedicated Ethan Allen Kids retail store location.

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.

Total booked orders, which include wholesale orders and written business of Ethan Allen-owned retail stores, increased 11.3% from the prior year quarter, reflecting the continued expansion of the Company's retail segment, modest improvement in consumer confidence, and a strengthening of the U.S. economy. Quarter-over-quarter, wholesale orders increased 12.4% while Ethan Allen-owned store written business increased 8.3% and comparable store written business decreased 1.3%.

Gross profit increased during the quarter to $108.4 million from $106.7 million in the prior year first quarter. The $1.7 million, or 1.6%, increase in gross profit was primarily attributable to a higher proportionate share of retail sales to total sales (60% in the current quarter compared to 56% in the prior year quarter), and, to a lesser extent, higher margins attributable to the off-shore sourcing of selected product lines. These favorable variances were partially offset by (i) increased costs associated with excess capacity at our manufacturing facilities, particularly during the third and fourth quarters of fiscal 2003, (ii) lower retail margins as a result of the sell-off of floor inventory necessary to make room for new product introductions,

including Ethan Allen Kids and New Country, and (iii) lower-than-anticipated shipments due to general business softness experienced for much of the period. Consolidated gross margin decreased to 48.7% in the first quarter of fiscal 2004 from 49.3% in the prior year quarter as a result of the factors identified previously.

Operating expenses increased $5.1 million, or 6.8%, to $79.9 million, or 35.9% of net sales, in the current year quarter from $74.8 million, or 34.5% of net sales, in the prior year quarter. This increase is primarily attributable to further expansion of the retail segment and the higher proportionate share of retail sales to total sales in the current quarter as compared to the prior year quarter. The addition of 4 net new Ethan Allen-owned stores since September 2002 has resulted in higher costs associated with warehousing and delivery, occupancy, advertising, healthcare and design consultant salaries. These increases were partially offset by a decrease in selling expense within the wholesale division as the result of a continued Company-wide focus on cost containment.

Operating income for the three months ended September 30, 2003 was $28.6 million, or 12.8% of net sales, compared to $31.9 million, or 14.7% of net sales, for the three months ended September 30, 2002. This represents a decrease of $3.3 million, or 10.5%, which is primarily attributable to increased operating expenses resulting from the continued expansion of the retail segment, partially offset by lower selling costs within the wholesale division and a modest increase in gross profit.

Total wholesale operating income for the first quarter of fiscal 2003 was $27.0 million, or 17.0% of net sales, compared to $29.0 million, or 18.4% of net sales, in the first quarter of fiscal 2002. The decrease of $2.0 million, or 6.9%, is primarily attributable to increased costs associated with excess capacity at our manufacturing facilities, particularly during the third and fourth quarters of fiscal 2003, partially offset by decreased operating expenses within the division.

Operating income for the retail segment decreased $2.8 million to $0.2 million, or 0.2% of net sales, for the first quarter of fiscal 2004, as compared to $3.0 million, or 2.5% of net sales, in the prior year period. The decrease in retail operating income generated by Ethan Allen-owned stores is primarily attributable to (i) higher operating expenses related to the addition of 4 net new stores since September 2002, (ii) a lower gross margin resulting from the sell-off of floor inventory necessary to make room for the aforementioned new product offerings, and (iii) lower-than-anticipated shipments due to general business softness experienced for much of the period, and, to a lesser extent, the effects of Hurricane Isabel throughout the mid-Atlantic states. These unfavorable variances were partially offset by increased sales volume associated with new stores and a modest increase in comparable store sales.

Interest and other miscellaneous income for the current quarter totaled $2.2 million, representing an increase of $1.7 million from $0.5 million recorded in the prior year quarter. The increase is due, primarily, to (i) a favorable judgment in the case of an outstanding legal matter, (ii) larger gains recorded in the current period in connection with the sale of real estate, and (iii) a decrease in the Company's share of first quarter losses incurred in connection with its United Kingdom joint venture with MFI Furniture Group Plc.

Income tax expense for the three months ended September 30, 2003 was $11.7 million as compared to $12.2 million for the three months ended September 30, 2002. The Company's effective tax rate for the current quarter was 38.2%, up slightly from 37.8% in the prior year quarter. The higher effective tax rate is the result of increased income tax liability arising in connection with the operation of a greater number of Company-owned stores, some of which are located in new jurisdictions, and recently-enacted changes within certain state tax legislation.

For the three months ended September 30, 2003, the Company recorded net income of $18.9 million, a decrease of $1.2 million, as compared to $20.1 million recorded in the first quarter of fiscal 2003. Earnings per diluted share for the current quarter amounted to $0.50, representing a decrease of $0.02 per diluted share, or 4.1%, from $0.52 per diluted share in the prior year quarter.

QUARTER ENDED SEPTEMBER 30, 2002 COMPARED TO QUARTER ENDED SEPTEMBER 30, 2001

Consolidated revenue for the three months ended September 30, 2002 increased by $9.8 million, or 4.7%, to $216.5 million from $206.7 million for the three months ended September 30, 2001. Net sales have increased due to the continued expansion of the Company's retail segment offset slightly by delays experienced related to certain off-shore sourced product lines and a relative softness in consumer spending caused by a sluggish economy. Subsequent to the end of the quarter, the Company announced that it would be selectively reducing prices by up to 20% on certain items within four collections: British Classics; Country French; Horizons by Ethan Allen; and Country Crossings. The objectives of the price reductions were to increase sales volume within some of the more popular collections while continuing to expand the Company's consumer reach. Such price reductions did not have a material adverse effect on the Company's consolidated operations.

Total wholesale revenue for the first quarter of fiscal 2003 increased by $2.9 million, or 1.9%, to $157.8 million from $154.9 million in the first quarter of fiscal 2002. The wholesale segment continues to be challenged by the state of the U.S. economy and was further adversely affected during the quarter by the inability to service backlog associated with certain imported product lines as a result of higher-than-anticipated sales volume and the closure of selected West Coast ports.

Total retail revenue from Ethan Allen-owned stores for the three months ended September 30, 2002 increased by $21.7 million, or 21.9%, to $120.5 million from $98.8 million for the three months ended September 30, 2001. The increase in retail sales by Ethan Allen-owned stores was attributable to an increase in sales generated by newly opened or acquired stores of $28.5 million, partially offset by a decrease in comparable store delivered sales of $3.3 million, or 3.6%, and a decrease resulting from sold and closed stores, which generated $3.5 million fewer sales in fiscal 2003 as compared to fiscal 2002. The number of Ethan Allen-owned stores increased to 116 as of September 30, 2002 as compared to 93 as of September 30, 2001. During that twelve month period, the Company acquired 23 stores from independent dealers, sold 1 to an independent dealer, relocated 2 stores, and opened 1 new store. Of the 10 stores acquired during the quarter ended September 30, 2001, 6 stores were purchased from Mr. Edward D. 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.

Total booked orders, which include wholesale orders and written business of Ethan Allen-owned retail stores, increased from the prior year quarter by 9.9%, reflecting the continued expansion of the Company's retail segment and the success of recent off-shore sourced product introductions, partially offset by the effects of a relative softness in consumer spending. Quarter-over-quarter, wholesale orders increased 3.6% while Ethan Allen-owned store written business increased 32.7% and comparable store written business increased 4.8%.

Gross profit increased during the quarter to $106.7 million from $94.0 million in the first quarter of the prior year. The $12.7 million, or 13.6%, increase in gross profit was primarily attributable to (i) a higher proportionate share of retail sales to total sales (56% in the current quarter compared to 48% in the prior year quarter), (ii) lower manufacturing costs resulting from efficiencies gained as a result of plant closures implemented in fiscal 2001 and fiscal 2002, and (iii) the Company's continued focus on quality and cost savings within all facets of its operations. Consolidated gross margin increased to 49.3% in the first quarter of fiscal 2003 from 45.5% in the prior year first quarter. The gross margin was positively impacted as a result of the factors identified previously.

During the quarter, it was determined that certain stock unit awards previously expensed by the Company would not be issued to Mr. Farooq Kathwari, Chairman and Chief Executive Officer. The granting and vesting of such stock unit awards was governed by the provisions of Mr. Kathwari's 1997 Employment Agreement (the "1997 Agreement") which

provided for an initial five-year term of employment through June 30, 2002 and the option of two additional one-year extensions. The Company and Mr. Kathwari entered into a new employment agreement effective July 1, 2002 (the "New Agreement"). Despite Mr. Kathwari's continued employment subsequent to June 30, 2002, the Company determined that certain stock unit awards contemplated under the performance provisions of the 1997 Agreement would not be granted as a result of Mr. Kathwari's performance being governed, effective July 1, 2002, by the terms of the New Agreement. As such, the related stock units were canceled and $0.5 million ($0.3 million, after-tax) of previously recognized compensation expense was reversed.

Operating expenses increased $7.4 million, or 11.0%, to $74.8 million, or 34.5% of net sales, in the current year quarter from $67.4 million, or 32.6% of net sales, in the prior year quarter. This increase is primarily attributable to further expansion of the retail segment and the higher proportionate share of retail sales to total sales in the current quarter as compared to the prior year quarter. The addition of 23 net new Ethan Allen-owned stores since September 2001 has resulted in higher costs associated with warehousing and delivery, 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.

Operating income for the three months ended September 30, 2002 was $31.9 million, or 14.7% of net sales, compared to $26.5 million, or 12.8% of net sales, for the three months ended September 30, 2001. This represents an increase of $5.4 million, or 20.0%, which is primarily attributable to a higher gross margin and lower wholesale distribution costs, partially offset by increased operating expenses resulting from the continued expansion of the retail segment.

Total wholesale operating income for the first quarter of fiscal 2003 was $29.0 million, or 18.4% of net sales, compared to $23.3 million, or 15.0% of net sales, in the first quarter of fiscal 2002. The increase of $5.7 million, or 24.1%, is primarily attributable to (i) lower manufacturing costs resulting from efficiencies gained as a result of plant closures implemented in fiscal 2001 and fiscal 2002, (ii) lower distribution costs, and (iii) the Company's continued focus on quality and cost savings, partially offset by lower wholesale sales volume.

Operating income for the retail segment during the current quarter remained unchanged from the prior year quarter at $3.0 million. Operating income as a percentage of net sales, however, decreased to 2.5% for the three months ended September 30, 2002 from 3.0% for the three months ended September 30, 2001. The level of retail operating income generated by Ethan Allen-owned stores is primarily attributable to a 3.6% decline in comparable store sales and higher operating expenses related to the addition of 23 net new stores since September 2001, partially offset by increased sales volume associated with new stores.

Interest and other miscellaneous income for the current quarter was $0.5 million, an increase of $0.1 million from the prior year quarter. The increase is due, primarily, to additional income recognized in connection with the sale of real estate, partially offset by a decrease in interest income associated with the Company's investment portfolio as a result of a decline in interest rates during that same period.

Income tax expense was $12.2 million for the quarter ended September 30, 2002 as compared to $10.2 million for the comparable quarter in the prior year. The Company's effective tax rate was 37.8% in both periods.

For the three months ended September 30, 2002, the Company recorded net income of $20.1 million, an increase of $3.4 million, from $16.7 million recorded for the three months ended September 30, 2001. Earnings per diluted share were $0.52 for the current quarter representing an increase of $0.10, or 23.8%, from $0.42 per diluted share in the prior year quarter.

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 $50.0 million for the three months ended September 30, 2003, compared to $41.3 million for the three months ended September 30, 2002. The quarter-over-quarter increase of $8.7 million was principally the result of (i) an $8.7 million decrease in cash required to satisfy outstanding accounts payable, (ii) a $6.1 million decrease in prepaid expenses and other current assets, (iii) a $3.4 million increase in accrued expenses, and (iv) inventory levels which decreased $7.9 million during the current period, representing a $2.8 million variance from the decrease in inventory noted in the prior year period. These favorable variances were partially offset by (i) a $5.3 million decrease in income taxes payable, (ii) a $5.1 million decrease in cash collected related to outstanding accounts receivable, and (iii) a $1.2 million decrease in net income.

The decrease in inventory levels since June 2003 was the result, primarily, of (i) an increase in through-put within the wholesale division, serving to reduce the overall level of raw materials and work-in-process, (ii) reduced inventory requirements stemming from the closure of three manufacturing facilities as was previously announced in March 2003, and (iii) a decline in finished goods inventories.

Net cash used in investing activities totaled $0.6 million in the current period as compared to $16.7 million recorded in the prior year period. The decrease was due to a decline in the level of capital spending, exclusive of acquisitions, to $4.0 million for the three months ended September 30, 2003 from $9.3 million for the three months ended September 30, 2002. Further, $9.9 million was utilized in the prior year quarter to finance the acquisition of thirteen retail stores; no acquisitions occurred during the current year. The current level of capital spending is principally attributable to (i) new store development and renovation and (ii) technology improvements. The Company anticipates that cash from operations will be sufficient to fund future capital expenditures.

Net cash used in financing activities totaled $1.8 million in the current period as compared to $35.0 million in the prior year period, a decrease of $33.2 million. The decrease in net cash used in financing activities is the result, primarily, of (i) a decrease in payments related to the acquisition of treasury stock ($29.6 million), and (ii) a decrease in cash utilized in the repayment of debt ($3.3 million). Total debt outstanding at September 30, 2003 was $10.2 million. At September 30, 2003, there were no revolving loans outstanding under the Company's credit facility. Trade and standby letters of credit outstanding under the facility at September 30, 2003 totaled $20.0

million and the Company's remaining available borrowing capacity was $105.0 million at that date.

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 retires shares of unvested restricted stock and, prior to June 30, 2002, repurchased shares of common stock from terminated or retiring employee's accounts in the Ethan Allen Retirement Savings Plan. All of the Company's common stock repurchases and retirements are recorded as treasury stock and result in a reduction of shareholders' equity.

During the first three months of fiscal years 2004 and 2003, the Company repurchased the following shares of its common stock:

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002(1)
Common shares repurchased	-	721,300
Cost to repurchase common shares	-	$22,381,598
Average price per share	-	$31.03

(1) The cost to repurchase shares for the three months ended September 30, 2002 reflects $7,197,165 in common stock repurchases with a June 2002 trade date and a July 2002 settlement date.

The Company funded its common stock repurchases through available cash and cash from operations. As of September 30, 2003, the Company had a remaining Board authorization to purchase 1.3 million shares.

As of September 30, 2003, the aggregate scheduled maturities of the Company's long-term debt for each of the next five fiscal years are as follows: $4.7 million in fiscal 2005, $0.2 million in fiscal 2006, $0.1 million in fiscal 2007, $0.1 million in fiscal 2008, $0.1 million in fiscal 2009 and $4.0 million thereafter. 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 September 30, 2003, the Company had working capital of $249.9 million and a current ratio of 2.67 to 1.

OFF-BALANCE SHEET ARRANGEMENTS AND OTHER COMMITMENTS, CONTINGENCIES AND CONTRACTUAL OBLIGATIONS

Except as indicated below, the Company does not utilize or employ any off-balance sheet arrangements in operating its business. As such, the Company does not maintain any (i) retained or contingent interests, (ii) derivative instruments, or (iii) variable interests which could serve as a source of potential risk to its future liquidity, capital resources and results of operations.

The Company, or its wholly-owned subsidiaries, may, from time to time in the ordinary course of business, provide guarantees on behalf of selected affiliated entities or become contractually obligated to perform in accordance with the terms and conditions of certain business agreements. The nature and extent of these guarantees and obligations varies based on the underlying relationship of the benefiting party to the Company and the business purpose for which the guarantee or obligation is being provided. Details of those arrangements for which the Company, or any of its wholly-owned subsidiaries, act as guarantor or obligor are provided below.

Dealer-Related Guarantees

As part of the Company's expansion strategy for the Ethan Allen retail store network, selected independent dealers are provided, on rare occasion, with financial guarantees relating to leases in connection with certain store locations. As of September 30, 2003, one such guarantee exists. This guarantee, which has been provided by Ethan Allen Inc. on behalf of an independent dealer, has a remaining term of twelve months, which generally represents the remaining contractual terms of the underlying lease agreement (subject to certain term limitations). The Company is obligated to act under such guarantee in the event of default by the respective dealer (lessee). The maximum potential amount of future payments (undiscounted) that the Company could be required to make under this guarantee is limited to the amount of the remaining contractual lease payments (subject to certain term limitations) and, as such, is not an estimate of future cash flows. As of September 30, 2003, the amount of remaining contractual lease payments guaranteed by the Company was approximately $0.3 million. The Company maintains specific recourse rights related to this dealer arrangement that would enable recovery of any amount paid under this guarantee. Management expects, based on the underlying creditworthiness of the guaranteed party, this guarantee will expire without requiring funding by the Company. Accordingly, as of September 30, 2003, the carrying amount of the liability related to such guarantee is zero.

In addition, Ethan Allen Inc. has obligated itself, on behalf of one of its independent dealers, with respect to a $1.5 million credit facility (the "Credit Facility") comprised of a $1.1 million revolving line of credit and a $0.4 million term loan. This obligation requires the Company, in the event of the dealer's default under the Credit Facility, to repurchase the dealer's inventory, applying such purchase price to the dealer's outstanding indebtedness under the Credit Facility. The Company's obligation remains in effect for the life of the term loan which expires in April 2008. The maximum potential amount of future payments (undiscounted) that the Company could be required to make under this obligation is limited to the amount outstanding under the Credit Facility

at the time of default (subject to pre-determined lending limits based on the value of the underlying inventory) and, as such, is not an estimate of future cash flows. No specific recourse or collateral provisions exist that would enable recovery of any portion of amounts paid under this obligation, except to the extent that the Company maintains the right to take title to the repurchased inventory. Management anticipates that the repurchased inventory could subsequently be sold through the Company's retail store network. As of September 30, 2003, the total amount outstanding under the Credit Facility totaled approximately $1.0 million, of which $0.7 million was outstanding under the revolving credit line. Management expects, based on the underlying creditworthiness of the respective dealer, this obligation will expire without requiring funding by the Company. However, in accordance with the provisions of FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, a liability has been established to reflect the Company's non-contingent obligation under this arrangement as a result of modifications made to the Credit Facility subsequent to January 1, 2003. As of September 30, 2003, the carrying amount of such liability is less than $50,000.

Indemnification Agreement

In connection with the Company's joint venture arrangement with United Kingdom-based MFI Furniture Group Plc., Ethan Allen Inc. has entered into a tax cross-indemnification agreement with the joint venture partner. The indemnification agreement stipulates that both parties agree to pay fifty percent of the amount of any tax liability arising as a result of (i) an adverse tax judgment or (ii) the imposition of additional taxes against either partner, and attributable to the operations of the joint venture. The indemnification agreement is effective until such time that the joint venture is terminated. At the present time, management anticipates that the joint venture will continue to operate for the foreseeable future.

The maximum potential amount of future payments (undiscounted) that the Company could be required to make under this indemnification agreement is indeterminable as no such tax liability currently exists. Further, the nature, extent and magnitude of any such tax liability arising in the future as a result of an adverse tax judgment or change in applicable tax law cannot be estimated with any reasonable certainty. It should be further noted that no recourse or collateral provisions exist that would enable recovery of any portion of amounts paid under this indemnification agreement. Management expects, based on its current understanding of the applicable tax laws and the existing legal structure of the joint venture, subject to future changes in applicable laws and regulations, this cross-indemnity agreement will expire without requiring funding by the Company. Accordingly, as of September 30, 2003, the carrying amount of the liability related to this indemnification agreement is zero.

Residual Value Guarantees

In connection with its distribution activities, the Company has entered into operating lease agreements for certain trucks and trailers within its fleet. For a portion of these vehicles, the Company has guaranteed the related residual values upon completion of the contractual lease terms. The remaining terms of such guarantees range from one to two years, and generally represent the remaining contractual terms of the underlying lease agreements. The Company is obligated to act under such guarantees in the event that the fair value of the vehicles at the end of the lease term is less than the guaranteed residual value. The maximum potential amount of future payments (undiscounted) that the Company could be required to make under these guarantees is limited to the guaranteed residual value for each respective vehicle subject to such guarantee and, as such, is not an estimate of future cash flows. As of September 30, 2003, the Company's maximum potential exposure related to residual value guarantees was approximately $0.5 million. While no specific recourse or collateral provisions exist that would enable recovery of any portion of amounts paid under these guarantees, all payments made by the Company related to such guarantees are computed net of the proceeds received by the lessor upon sale of the underlying assets. Management, based on historical experience and the present condition of its fleet, expects these guarantees will expire without requiring funding by

the Company. Accordingly, as of September 30, 2003, the carrying amount of the liability related to such guarantees is zero.

Product Warranties

The Company's products, including its case goods, upholstery and home accents, generally carry explicit product warranties that extend from three to five years and are provided based on terms that are generally accepted in the industry. All of the Company's independent dealers are required to enter into, and perform in accordance with the terms and conditions of, a warranty service agreement. The Company records provisions for estimated warranty and other related costs at time of sale based on historical warranty loss experience and makes periodic adjustments to those provisions to reflect actual experience. On rare occasion, certain warranty and other related claims involve matters of dispute that ultimately are resolved by negotiation, arbitration or litigation. In certain cases, a material warranty issue may arise which is beyond the scope of the Company's historical experience. The Company provides for such warranty issues as they become known and estimable. It is reasonably possible that, from time to time, additional warranty and other related claims could arise from disputes or other matters beyond the scope of the Company's historical experience. As of September 30, 2003, the Company's product warranty liability totaled $0.8 million.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

As of September 30, 2003, the Company was essentially debt-free. Cash and short-term investments totaled $129.5 million and there were no revolving loans outstanding under the Company's credit facility. The current portion of the Company's outstanding long-term debt and capital lease obligations totaled $1.0 million as of September 30, 2003, while the long-term portion totaled $9.2 million.

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.

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 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 instrument transactions for trading or other speculative purposes or to manage interest rate exposure.

ITEM 4. CONTROLS AND PROCEDURES

Ethan Allen's management, including the Chairman of the Board and Chief Executive Officer ("CEO") and the Vice President-Finance ("VPF"), conducted an evaluation of the effectiveness of disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the CEO and VPF have concluded that, as of September 30, 2003, the Company's disclosure controls and procedures are effective in ensuring that material information relating to the Company (including its consolidated subsidiaries), which is required to be included in the Company's periodic filings under the Exchange Act, has been made known to them in a timely manner.

There have been no significant changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There has been no change to matters discussed in Part I, Item 3 - Legal Proceedings in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 22, 2003.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

*	31.1	Rule 13a-14(a) Certification of Principal Executive Officer
*	31.2	Rule 13a-14(a) Certification of Principal Financial Officer
*	32.1	Section 1350 Certifications of Principal Executive Officerand Principal Financial Officer

* Filed herewith.

(b) Reports on Form 8-K

During the three month period ended September 30, 2003, the Company filed a Current Report on Form 8-K dated July 31, 2003, covering information reported under <u>Item 9. Regulation FD Disclosure</u> but furnished pursuant to <u>Item 12. Results of Operations and Financial Condition</u> in accordance with SEC Release Nos. 33-8216 and 33-8176.

The Company also filed a Current Report on Form 8-K dated October 15, 2003, covering information reported under <u>Item 12. Results of Operations and Financial Condition</u> in accordance with SEC Release No. 33-8176.

SIGNATURES

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

ETHAN ALLEN INTERIORS INC.
(Registrant)

DATE: November 7, 2003 BY: /S/ M. FAROOQ KATHWARI

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

DATE: November 7, 2003 BY: /S/ JEFFREY HOYT

Jeffrey Hoyt
Vice President, Finance
(Principal Financial Officer)

EXHIBIT 31.1

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 this quarterly report on Form 10-Q as filed by Ethan Allen Interiors Inc. (the "Company");

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

(4) The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting;

(5) The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

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

November 7, 2003

EXHIBIT 31.2

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

I, Jeffrey Hoyt, do hereby certify that:

(1) I have reviewed this quarterly report on Form 10-Q as filed by Ethan Allen Interiors Inc. (the "Company");

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

(4) The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting;

(5) The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/S/ JEFFREY HOYT Vice President, Finance

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(Jeffrey Hoyt)

November 7, 2003

EXHIBIT 32

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AS REQUIRED BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, M. Farooq Kathwari, hereby certify that the September 30, 2003 Quarterly Report on Form 10-Q as filed by Ethan Allen Interiors Inc. (the "Company"), which contains the Company's financial statements, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and that information contained in such quarterly report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ M. Farooq Kathwari

(M. Farooq Kathwari)

Chairman, President and Chief Executive Officer

November 7, 2003

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER AS REQUIRED BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Jeffrey Hoyt, hereby certify that the September 30, 2003 Quarterly Report on Form 10-Q as filed by Ethan Allen Interiors Inc. (the "Company"), which contains the Company's financial statements, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and that information contained in such quarterly report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jeffrey Hoyt

(Jeffrey Hoyt)

Vice President, Finance

November 7, 2003