

ETHAN ALLEN INTERIORS INC
Form 10-K
August 18, 2011
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended June 30, 2011

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

Ethan Allen Drive, Danbury, CT 06811
(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Each Exchange On Which Registered |
|-------------------------------|---|
| Common Stock, \$.01 par value | New York Stock Exchange, Inc. |

Securities registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

☐ Yes ☒ No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

☐ Yes ☒ No

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

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Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files).

☐ Yes ☐ No

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

☒ [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

Large acceleratedA c c e l e r a t e d
filer ☐ filer ☒ [X]

Non-accelerated filer S m a l l e r r e p o r t i n g
☐ company ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act).

☐ Yes ☒ [X] No

The aggregate market value of the Registrant's common stock, par value \$.01 per share, held by non-affiliates (based upon the closing sale price on the New York Stock Exchange) on December 31, 2010, (the last day of the Registrant's most recently completed second fiscal quarter) was approximately \$574,818,766. As of July 31, 2011, there were 28,792,973 shares of the Registrant's common stock, par value \$.01 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: Certain information contained in the Registrant's definitive Proxy Statement for the 2011 Annual Meeting of stockholders, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, is incorporated by reference into Part III hereof.

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PART I

Item 1. Business

Background

Incorporated in Delaware in 1989, Ethan Allen Interiors Inc., through its wholly-owned subsidiary, Ethan Allen Global, Inc., and Ethan Allen Global, Inc.'s subsidiaries (collectively, "We," "Us," "Our," "Ethan Allen" or the "Company"), is a leading manufacturer and retailer of quality home furnishings and accessories, offering a full complement of home decorating and design solutions through one of the country's largest home furnishing retail networks. We refer to our Ethan Allen retail outlets as "design centers" instead of "stores" to better reflect these expanded capabilities. We have made, and continue to make, considerable investment in our business in order to expand and improve our interior design capabilities and to leverage our domestic manufacturing and logistics operations. The Company was founded in 1932 and has sold products under the Ethan Allen brand name since 1937.

Mission Statement

Our primary business objective is to provide our customers with a convenient, full-service, one-stop shopping solution for their home decorating needs by offering stylish, high-quality products at good value. In order to meet our stated objective, we have developed and adhere to a focused and comprehensive business strategy. The elements of this strategy, each of which is integral to our solutions-based philosophy, include (i) our vertically integrated operating structure, (ii) our stylish products and related marketing initiatives, (iii) our retail design center network, (iv) our people, and (v) our focus on providing design solutions.

Operating Segments

Our products are sold through a dedicated global network of 287 retail design centers. As of June 30, 2011, the Company operated 147 design centers (our retail segment) and our independent retailers operated 140 design centers (as compared to 145 and 136, respectively, at the end of the prior fiscal year). Our wholesale segment net sales include sales to our retail segment and sales to our independent retailers. Our retail segment net sales accounted for 75% of our consolidated net sales in fiscal 2011 while wholesale segment net sales to independent retailers accounted for 25%. Our net sales to the ten largest independent retailers, who operate 77 design centers, accounted for approximately 13% of our consolidated net sales in fiscal 2011.

Our wholesale and retail operating segments represent strategic business areas of our vertically integrated business that operate separately and provide their own distinctive services (further outlined below). This enables us to more effectively offer our complete line of home furnishings and accessories and more efficiently control quality and cost. For certain financial information regarding our operating segments, see Note 16 to the Consolidated Financial Statements included under Item 8 of this Annual Report and incorporated herein by reference.

While the manner in which our home furnishings and accessories are marketed and sold is consistent between our wholesale and retail segments, the nature of the underlying recorded sales (i.e. wholesale versus retail) and the specific services that each operating segment provides (i.e. wholesale manufacturing, sourcing, and distribution versus retail selling) are different. Within the wholesale segment, we maintain revenue information according to each respective product line (i.e. case goods, upholstery, or home accessories and other). Sales of case good items include, but are not limited to, beds, dressers, armoires, tables, chairs, buffets, entertainment units, home office furniture, and wooden accents. Sales of upholstery home furnishing items include sleepers, recliners, chairs, sofas, loveseats, cut fabrics and leather. Skilled craftsmen cut, sew and upholster custom-designed upholstery items which are available in a variety of frame and fabric options. Home accessory and other items include window treatments, wall decor, lighting, clocks,

bedding and bedspreads, decorative accessories, area rugs, and home and garden furnishings.

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Revenue information by product line is not as easily determined within the retail segment. However, because wholesale sales are matched, for the most part, to incoming orders, we believe that the allocation of retail sales by product line would be similar to that of the wholesale segment.

We evaluate performance of the respective segments based upon revenues and operating income. Inter-segment eliminations result, primarily, from the wholesale sale of inventory to the retail segment, including the related profit margin.

Wholesale Segment Overview:

Wholesale net sales for each of the last three fiscal years are summarized below (in millions):

| | Fiscal Year Ended June 30, | | |
|---------------------|----------------------------|---------|---------|
| | 2011 | 2010 | 2009 |
| Wholesale net sales | \$422.9 | \$362.5 | \$403.4 |

Wholesale net sales for each of the last three fiscal years, allocated by product line, were as follows:

| | Fiscal Year Ended June 30, | | | | | |
|----------------------------|----------------------------|---|------|---|------|---|
| | 2011 | | 2010 | | 2009 | |
| Case Goods | 39 | % | 40 | % | 41 | % |
| Upholstered Products | 46 | | 46 | | 41 | |
| Home Accessories and Other | 15 | | 14 | | 18 | |
| | 100 | % | 100 | % | 100 | % |

The wholesale segment, principally involved in the development of the Ethan Allen brand, encompasses all aspects of design, manufacture, sourcing, sale, and distribution of our broad range of home furnishings and accessories. Wholesale revenue is generated upon the wholesale sale and shipment of our products to our network of independently operated design centers and Company-operated design centers (see Company operated retail comments below) through its national distribution center and one other smaller fulfillment center.

During the past year, independent retailers opened 15 new design centers, closed five, and six design centers were acquired from independent retailers by the Company. We continue to promote the growth and expansion of our independent retailers through ongoing support in the areas of market analysis, site selection, and business development. As in the past, our independent retailers are required to enter into license agreements with us, which (i) authorize the use of certain Ethan Allen trademarks and (ii) require adherence to certain standards of operation, including a requirement to fulfill related warranty service agreements. We are not subject to any territorial or exclusive retailer agreements in North America. The wholesale segment also develops and implements related marketing and brand awareness programs.

Wholesale profitability includes (i) the wholesale gross margin, which represents the difference between the wholesale net sales price and the cost associated with manufacturing and/or sourcing the related product, and (ii) other operating costs associated with wholesale segment activities.

The Company's domestic manufacturing is included in the results of the wholesale segment. During fiscal 2011, the Company's domestic manufacturing footprint remained stable and we focused on achieving operational efficiencies.

We doubled the size of our Mexico plant to 130,000 square feet in fiscal 2011. We operate three case good plants (including one sawmill), three upholstery plants (two upholstery plants on our Maiden, North Carolina campus and one cut and sew plant in Mexico) and one home accessory plant. We also source selected case goods, upholstery, and home accessory items from third-party suppliers located both domestically and outside the United States.

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As of June 30, 2011, we maintained a wholesale backlog of \$62.8 million (as compared to \$57.0 million as of June 30, 2010) which is anticipated to be serviced in the first quarter of fiscal 2012. Backlog at a point in time is a result, primarily, of net orders booked in prior periods, manufacturing schedules, timing associated with the receipt of sourced product, and the timing and volume of wholesale shipments. Because orders may be rescheduled and/or canceled, the measure of backlog at a point in time may not necessarily be indicative of future sales performance.

For the twelve months ended June 30, 2011, net orders booked at the wholesale level, which includes orders generated by independently operated and Company operated design centers, totaled \$427.9 million as compared to \$403.7 million for the twelve months ended June 30, 2010. In any given period, net orders booked may be impacted by the timing of floor sample orders received in connection with new product introductions. New product offerings may be made available to the retail network at any time during the year, including in connection with our periodic retailer conferences.

Retail Segment Overview:

Retail net sales for each of the last three fiscal years are summarized below (in millions):

| | Fiscal Year Ended June 30, | | |
|------------------|----------------------------|---------|---------|
| | 2011 | 2010 | 2009 |
| Retail net sales | \$505.9 | \$438.5 | \$508.6 |

The retail segment sells home furnishings and accessories to consumers through a network of Company-operated design centers. During fiscal 2011, we acquired six design centers from independent retailers, relocated one, and closed four design centers. The number of independent interior designers affiliated with the Company has grown to over 2,300 interior designers. The interior design affiliate program, initiated in fiscal 2010, provides the opportunity for Ethan Allen designers to work with independent interior design affiliates that apply and meet Ethan Allen standards. This program allows the Company to reach additional clients serving both Company operated and independent retail operations not otherwise affiliated with Ethan Allen and compensates them for the incremental business. Retail revenue is generated upon the retail sale and delivery of our products to our retail customers through its network of service centers. Retail profitability includes (i) the retail gross margin, which represents the difference between the retail net sales price and the cost of goods purchased from the wholesale segment, and (ii) other operating costs associated with retail segment activities.

We pursue further expansion of the Company-operated retail business by opening new design centers, relocating existing design centers and, when appropriate, acquiring design centers from independent retailers. The geographic distribution of retail design center locations is included under Item 2 of Part I of this Annual Report.

Products

Our strategy has been to position Ethan Allen as a preferred brand with superior style, quality and value while, at the same time, providing consumers with a comprehensive, one-stop shopping solution for their home furnishing and design needs. In carrying out our strategy, we continue to expand our reach to a broader consumer base through a diverse selection of attractively priced products, designed to complement one another, reflecting the popular trend toward eclectic home decorating. Regular product introductions, a broad range of styles and selections within our custom upholstery and case good lines, new finishes for, and redesigns of, previous product introductions, and expanded product offerings to accommodate today's home decorating trends, continue to redefine Ethan Allen, positioning us as a leader in style.

In an effort to more effectively position ourselves as a provider of interior design solutions, we offer a merchandising strategy which involves the grouping of our product offerings into five distinct product “lifestyles”, each reflecting the diversity and eclecticism that we believe represents the best in American design. In accordance with this merchandising strategy, new products are designed and developed to reflect unique elements applicable to one or more of the following lifestyles: Elegance; Modern; Romance; Explorer; and Vintage.

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All of our case goods, upholstered products, and home accessories are styled with distinct design characteristics. Home accessories play an important role in our marketing strategy as they enable us to offer the consumer the convenience of one-stop shopping by creating a comprehensive home furnishing solution. The interior of our design centers is organized to facilitate display of our product offerings, both in room settings that project the category lifestyle and by product grouping to facilitate comparisons of the styles and tastes of our clients. To further enhance the experience, technology is used to expand the range of products viewed by including content from our award-winning website and advanced large touch-screen flat panel displays.

We continuously monitor changes in home design trends through attendance at international industry events and fashion shows, internal market research, and regular communication with our retailers and design center design consultants who provide valuable input on consumer tendencies. We believe that the observations and input gathered enable us to incorporate appropriate style details into our products to react quickly to changing consumer tastes.

Product Sourcing Activities

We are one of the largest manufacturers of home furnishings in the United States, manufacturing and/or assembling approximately 70% of our products in our six domestic manufacturing facilities. Our facilities are located in the Northeast and Southeast regions of the United States where they are close to sources of raw materials and skilled craftsmen. Our domestic upholstery manufacturing is supported by our high quality upholstery cut and sew plant in Mexico. The balance of our production is outsourced according to our own internally developed design specifications, through third-party suppliers, most of which are located outside the United States. These suppliers, primarily in Asia, have been carefully selected and generally have supplied us for many years. We believe that strategic investment in our manufacturing facilities, combined with an appropriate level of outsourcing through both foreign and domestic suppliers, will accommodate future sales growth and allow us to maintain an appropriate degree of control over cost, quality and service to our customers.

We also take pride in our “green” initiatives that include, in select product offerings, the use of responsibly harvested Appalachian woods, water based finishes, organic cotton textiles and recycled materials.

Raw Materials and Other Suppliers

The most important raw materials we use in furniture manufacturing are lumber, veneers, plywood, hardware, glue, finishing materials, glass, mirrored glass, laminates, fabrics, foam, and filling material. The various types of wood used in our products include cherry, ash, oak, maple, prima vera, mahogany, birch and pine; substantially all of which are purchased domestically.

Fabrics and other raw materials are purchased both domestically and outside the United States. We have no significant long-term supply contracts, and have sufficient alternate sources of supply to prevent disruption in supplying our operations. We maintain a number of sources for our raw materials, which we believe contribute to our ability to obtain competitive pricing. Lumber prices fluctuate over time based on factors such as weather and demand, which, in turn, impact availability. Higher material prices could have an adverse effect on margins.

Appropriate amounts of lumber and fabric inventory are typically stocked to maintain adequate production levels. We believe that our sources of supply for these materials are sufficient and that we are not dependent on any one supplier.

We enter into standard purchase agreements with certain foreign and domestic suppliers to source selected case goods, upholstery, and home accessory items. The terms of these arrangements are customary for the industry and do not contain any long-term contractual obligations on our behalf. We believe we maintain good relationships with our suppliers.

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Distribution and Logistics

We distribute our products through one primary distribution center, owned by the Company, strategically located in the Southeast United States. This national distribution center is supported by a smaller Company-owned order fulfillment center located in the South Central United States. Our primary distribution center provides efficient cross-dock operations to receive and ship product from our manufacturing facilities and third-party suppliers to our network of retail design centers and retail service centers. While we manufacture to custom order the majority of our products, we also stock selected case goods, upholstery and accessories to provide for quick delivery of in-stock items and to allow for more efficient production runs. Within our existing manufacturing sites, we have two large “supermarkets of parts” for the components used in our custom case goods manufacturing.

Wholesale shipments utilize our own fleet of trucks and trailers or are subcontracted with independent carriers. Approximately 88% of our fleet (trucks and trailers) is leased under operating lease agreements with remaining terms ranging from one to 15 months.

Our policy is to sell our products at the same delivered cost to all Company-operated and independently operated design centers nationwide, regardless of their shipping point. The adoption of this policy has created pricing credibility with our wholesale customers and provided our retail network the opportunity to achieve more consistent margins as fluctuations attributable to the cost of shipping have been eliminated. Further, this policy has eliminated the need for our independent retailers to carry significant amounts of inventory in their own warehouses. As a result, we obtain more accurate consumer product demand information.

Retail service centers are operated by the Company, independent retailers, and subcontractors to prepare products for delivery into clients’ homes. There were 16 Company-operated service centers at the end of fiscal 2011, down from 18 one year earlier.

Marketing Programs

Our marketing and advertising strategies are developed to drive traffic into our network of design centers and to ethanallen.com. We believe these strategies give Ethan Allen a strong competitive advantage in the home furnishings industry. We create and coordinate print, digital and television campaigns nationally, as well as assist in local marketing and promotional efforts. The Company’s network of approximately 290 retail design centers and more than 2,300 independent members of the Interior Design Affiliate program benefit from these marketing efforts, and we believe these efforts position us to consistently fulfill our brand promise.

Our in-house team of advertising specialists send consistent, clear messages that Ethan Allen is a leader in style and service, with everything for the well-designed home. We use several forms of media to accomplish this, including television (national and local), direct mail, newspapers, regional shelter magazines, social media, email, online sponsorships and ads as well as at ethanallen.com. A strong national email marketing campaign delivers emails and design and product brochures to a growing database of clients.

Our national television and print advertising campaigns are designed to leverage our strong brand equity, finding creative and compelling ways to remind consumers of our tremendous range of products, services, special programs, and custom options. We believe that we consistently deliver the most cohesive national advertising campaign in the home furnishings industry. Coordinated local television, print and online ads serve to support our national programs.

The Ethan Allen direct mail magazine, which brands our new five Signature Lifestyles and communicates the breadth of our products and services, is one of our most important marketing tools. We publish these magazines and sell them to Company and independently operated design centers who use demographic information collected through

independent market research to target potential clients. Given the importance of this advertising medium, direct mail marketing lists are continually refined to target those consumers who are most likely to

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purchase, and improve the return on direct mail expenditures. Approximately 18 million copies of our direct mail magazine were distributed to consumers during fiscal 2011.

Our television advertising and direct mail efforts are supported by strong print campaigns. We also update our Style Book approximately every six months. In addition to its use as a catalog of our case goods and upholstery products, the Style Book is full of quality, design, and service stories, and looks and ideas to spark inspiration. This publication is a comprehensive and effective resource for clients.

The Company's award winning website, ethanallen.com, provides our customers and design associates a great way to shop and design. The website features a series of helpful tabs with videos, feature stories, design and style solutions, and fresh, new looks. For example, the site's myprojects tool lets visitors create idea boards and room plans. If they like, a design professional from their local Ethan Allen design center can give them feedback. Visitors will find all our latest news and promotional information here too. Nearly all of Ethan Allen's products are available for purchase online.

We also have a robust and informative extranet available to our retailers and design professionals. It is the primary source of communication in and among members of our retail network. It provides information about every aspect of the business of Ethan Allen at retail, including advertising materials, prototype floor plan displays, and extensive product details.

Retail Design Center Network

Ethan Allen design centers are typically located in busy urban settings as freestanding destinations or as part of suburban strip malls, depending upon the real estate opportunities in a particular market. Our design centers average approximately 16,000 square feet in size but range from approximately 3,000 square feet to 35,000 square feet.

We maximize uniformity of presentation throughout the retail design center network through a comprehensive set of standards and display planning assistance. These standard interior design formats assist each design center in presenting a high quality image by using focused lifestyle settings and select product category groupings to display our products and information to facilitate design solutions and to educate consumers. We also create a uniform design center image with consistent exterior facades in addition to the interior layouts. The adherence to all of these standards have helped position Ethan Allen as a leader in home furnishings retailing.

We have strengthened the retail network with many initiatives, including the opening of new and relocated design centers in desirable locations, introduction of Lifestyle presentations and floor plans, strengthening of the professionalism of our designers through training and certification, and the consolidation of certain design centers and service centers. This continuous improvement resulted in fiscal 2011 with one new Company-operated design center and 15 new independently operated design centers during the year including relocations. Four Company-operated and five independently operated design centers in underperforming markets were closed or consolidated into existing design centers.

People

At June 30, 2011, the Company had approximately 4,700 employees ("associates"), less than one percent of whom are represented by unions whose collective bargaining agreements expire within the next three years. We expect no significant changes in our relations with the unions and believe we maintain good relationships with our employees.

The retail network, which includes both Company-operated and independently operated design centers, is staffed with a sales force of design consultants and service professionals who provide customers with effective home decorating

solutions at no additional charge. Our interior design associates receive specialty training with respect to the distinctive design and quality features inherent in each of our products and programs. This enables them to

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more effectively communicate the elements of style and value that serve to differentiate us from our competition. As such, we believe our design consultants, and the complimentary service they provide, create a distinct competitive advantage over other home furnishing retailers. We continue to strengthen the level of service, professionalism, interior design competence, efficiency, and effectiveness of retail design center associates.

The Company's interior design affiliate program, launched in fiscal 2010, resulted in the registration with the Company of more than 2,300 qualified professional interior designers who add strength and breadth to our interior design reach. We believe that this program augments the Company and independent retailer design staffs to reach more clients and improve market penetration. This structure, along with the emphasis in our messaging to clients that "we can help as little or as much as you like"R, continues to improve the customer service experience.

We recognize the importance of our retail design center network to our long-term success. Accordingly, we believe we (i) have established a strong management team within Company-operated design centers and (ii) continue to work closely with our independent retailers in order to assist them. With this in mind, we make our services available to every design center, whether independently operated or Company-operated, in support of their marketing efforts, including coordinated advertising, merchandising and display programs, and extensive training seminars and educational materials. We believe that the development of design consultants, service and delivery personnel, and retailers is important for the growth of our business. As a result, we have committed to make available comprehensive retail training programs intended to increase the customer service capabilities of each individual.

Customer Service Offerings

We offer numerous customer service programs, each of which has been developed and introduced to consumers in an effort to make their shopping experience easier and more enjoyable.

Gift Card

This program allows customers to purchase gift cards through our website or at any participating retail design center, which can be redeemed for any of our products or services.

On-Line Room Planning

We offer, via our website, an interactive on-line room planning resource which serves to further assist consumers with their home decorating needs. Through the use of this web-based tool, customers can determine which of our product offerings best fit their particular needs based on their own individual home floor plan.

Ethan Allen Consumer Credit Programs

The Ethan Allen Finance Plus program offers consumers (clients) a menu of custom financing options through the use of just one account. Clients can choose between (i) "Fixed Payment" which offers fixed monthly payments the customer chooses (12, 24, or 36 months) at an interest rate of 9.99% per annum, and (ii) "Deferred Interest" which offers clients a way to borrow interest free for six months with small minimum monthly payments. If the purchase is not paid by the due date, interest is charged from the date of purchase at a fixed interest rate of 29.99% per annum. All plans provide credit lines from \$1,000 to \$20,000, or greater, if the customer qualifies. Financing offered is administered by a third-party financial institution and is granted to our customers on a non-recourse basis to the Company. Clients may apply for an Ethan Allen Finance Plus card at any participating design center or on-line at ethanallen.com.

Competition

The domestic and global home furnishings industry faces numerous challenges, not the least of which is an influx of low-priced products from overseas. As a result, we believe a trend toward product commoditization has developed. The economic recession resulted in many small and medium sized furniture retailers going out of business, and other well-established competitors resorting to heavy discounts to attract customers. We differentiate ourselves as a preferred brand by adhering to a business strategy focused on providing (i) high-quality, well designed and often custom handmade products at good value, (ii) a comprehensive complement of

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home furnishing design solutions, including our complimentary design service, and (iii) excellence in customer service. We consider our vertical integration a significant competitive advantage in the current environment as it allows us to design, manufacture and source, distribute, market, and sell our products through one of the industry's largest single-source retail networks.

The internet also provides a highly competitive medium for the sale of a significant amount of home furnishings each year. Much of that product is sold through commodity oriented, low priced and low service retailers. At Ethan Allen the ultimate goal of our internet strategy is to drive traffic into our network of design centers by coupling technology with excellent personal service. At EthanAllen.com, customers have the opportunity to buy our products online but we take the process further. With so much of our product offering being custom, we encourage our website customers to get online help from our network of interior design professionals. This complimentary interior design support creates a competitive advantage through our excellent personal service. This enhances the experience and regularly leads to internet customers becoming clients of our network of interior design centers.

Industry globalization has provided us an opportunity to adhere to a blended sourcing strategy, establishing relationships with certain manufacturers, both domestically and outside the United States, to source selected case goods, upholstery, and home accessory items. We intend to continue to balance our domestic production with opportunities to source from foreign and domestic manufacturers, as appropriate, in order to maintain our competitive advantage.

We believe the home furnishings industry competes primarily on the basis of product styling and quality, personal service, prompt delivery, product availability and price. We further believe that we effectively compete on the basis of each of these factors and that, more specifically, our retail format, our award winning website, and complimentary design service create a distinct competitive advantage, further supporting our mission of providing consumers with a complete home decorating and design solution. We also believe that we differentiate ourselves further with the quality of our design service through our internal training and certification programs along with our interior design affiliate program. Our objective is to continue to develop and strengthen our retail network by (i) expanding the Company-operated retail business through the relocation of existing design centers, opening of new design centers, and, when appropriate, acquiring design centers from, or selling design centers to, independent retailers, and (ii) obtaining and retaining independent retailers, encouraging such retailers to expand their business through the opening or relocation of new design centers with the objective of increasing the volume of their sales and (iii) further expanding our sales network through our interior designer affiliate program.

Trademarks

We currently hold, or have registration applications pending for, numerous trademarks, service marks and design patents for the Ethan Allen name, logos and designs in a broad range of classes for both products and services in the United States and in many foreign countries. In addition, we have registered, or have applications pending for certain of our slogans utilized in connection with promoting brand awareness, retail sales and other services and certain collection names. We view such trademarks and service marks as valuable assets and have an ongoing program to diligently monitor and defend, through appropriate action, against their unauthorized use.

Available Information

We make available, free of charge via our website, all Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other information filed with, or furnished to, the Securities and Exchange Commission (the "SEC" or the "Commission"), including amendments to such reports. This information is available at www.ethanallen.com/investors as soon as reasonably practicable after it is electronically filed with, or furnished to, the SEC. In addition, the SEC maintains a website that contains reports, proxy and information statements, and other

information regarding companies that file electronically with the Commission. This information is available at www.sec.gov.

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In addition, charters of all committees of our Board of Directors, as well as our Corporate Governance guidelines, are available on our website at www.ethanallen.com/governance or, upon written request, in printed hardcopy form. Written requests should be sent to Office of the Secretary, Ethan Allen Interiors Inc., Ethan Allen Drive, Danbury, Connecticut 06811.

Item 1A. Risk Factors

The following information describes certain significant risks and uncertainties inherent in our business that should be carefully considered, along with other information contained elsewhere in this report and in other filings, when making an investment decision with respect to us. If one or more of these risks actually occurs, the impact on our business, including our financial condition, results of operations, and cash flows could be adverse.

A prolonged economic downturn may materially adversely affect our business.

Our business and results of operations are affected by international, national and regional economic conditions. The United States and many other international economies experienced a major recession, with continuing effects for our industry. Our primary customer base, direct or indirect, is composed of individual consumers. A hesitant recovery in the U.S. economy, continuing high unemployment, volatile capital markets, depressed housing prices and tight consumer lending practices have resulted in considerable negative pressure on consumer spending. We believe these events have impacted consumers in our markets in ways that have negatively affected our business. In the event the current economic conditions worsen, our current and potential customers may be inclined to further delay their purchases. In addition, further tightening of credit markets may restrict our customers' ability and willingness to make purchases.

Access to consumer credit could be interrupted and reduce sales and profitability.

Our ability to continue to access consumer credit for our clients could be negatively affected by conditions outside our control. Given the difficult capital markets, there is a risk that, though we have agreements that do not expire until July 2014, our business partner which issues our private label credit card program, may not be able to fulfill its obligations under that agreement.

We may be unable to obtain sufficient external funding to finance our operations and growth.

Historically, we have relied upon our cash from operations to fund our operations and growth. As we operate and expand our business, we may rely on external funding sources, including the proceeds from the issuance of debt or the \$50 million revolving bank line of credit under our existing credit facility. Any unexpected reduction in cash flow from operations could increase our external funding requirements to levels above those currently available. The credit rating agencies Moody's Corporation and Standard and Poor's most recent rating of our corporate and senior unsecured credit is Ba2 and B+ respectively. If our credit ratings were lowered further, the Company's access to debt could be negatively impacted. There can be no assurance that we will not experience unexpected cash flow shortfalls in the future or that any increase in external funding required by such shortfalls will be available.

Operating losses could reduce our liquidity and impact our dividend policy.

Historically, we have relied on our cash from operations to fund our operations and the payment of cash dividends. If the Company's financial performance were to deteriorate resulting in financial losses we may not be able to fund a shortfall from operations and would require external funding. Some financing instruments used by the Company historically may not be available to the Company in the future. We cannot assure that additional sources of financing would be available to the Company on commercially favorable terms should the Company's capital requirements

exceed cash available from operations and existing cash and cash equivalents. In such circumstances, the Company may reduce its quarterly dividends.

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Additional impairment charges could reduce our profitability.

We have significant long-lived tangible and intangible assets recorded on our balance sheets. If our operating results decline, we may incur impairment charges in the future, which could have a material impact on our financial results. We evaluate the recoverability of the carrying amount of our long-lived tangible and intangible assets on an ongoing basis. There can be no assurance that the outcome of such future reviews will not result in substantial impairment charges. Impairment assessment inherently involves judgments as to assumptions about expected future cash flows and the impact of market conditions on those assumptions. Future events and changing market conditions may impact our assumptions as to prices, costs or other factors that may result in changes in our estimates of future cash flows. Although we believe the assumptions we use in testing for impairment are reasonable, significant changes in any of our assumptions could produce a significantly different result.

We face changes in global and local economic conditions that may adversely affect consumer demand and spending, our manufacturing operations or sources of merchandise.

Historically, the home furnishings industry has been subject to cyclical variations in the general economy and to uncertainty regarding future economic prospects. Such uncertainty, as well as other variations in global economic conditions such as rising fuel costs and increasing interest rates, may continue to cause inconsistent and unpredictable consumer spending habits, while increasing our own fuel, utility, transportation or security costs. These risks, as well as industrial accidents or work stoppages, could also severely disrupt our manufacturing operations, which could have a material adverse effect on our financial performance.

We import a portion of our merchandise from foreign countries. As a result, our ability to obtain adequate supplies or our costs may be adversely affected by events affecting international commerce and businesses located outside the United States, including natural disasters, changes in international trade, central bank actions, changes in the relationship of the U.S. dollar versus other currencies, and other governmental policies of the U.S. and the countries from which we import a portion of our merchandise. The inability to import products from certain foreign countries or the imposition of significant tariffs could have a material adverse effect on our results of operations.

Competition from overseas manufacturers and domestic retailers may adversely affect our business, operating results or financial condition.

Our wholesale business segment is involved in the development of our brand, which encompasses the design, manufacture, sourcing, sales and distribution of our home furnishings products, and competes with other U.S. and foreign manufacturers. Our retail business segment sells home furnishings to consumers through a network of Company-operated design centers, and competes against a diverse group of retailers ranging from specialty stores to traditional furniture and department stores, any of which may operate locally, regionally and nationally, as well as over the internet. We also compete with these and other retailers for appropriate retail locations as well as for qualified design consultants and management personnel. Such competition could adversely affect our future financial performance.

Industry globalization has led to increased competitive pressures brought about by the increasing volume of imported finished goods and components, particularly for case good products, and the development of manufacturing capabilities in other countries, specifically within Asia. The increase in overseas production capacity has created over-capacity for many U.S. manufacturers, including us, which has led to industry-wide plant consolidation. In addition, because many foreign manufacturers are able to maintain substantially lower production costs, including the cost of labor and overhead, imported product may be capable of being sold at a lower price to consumers, which, in turn, could lead to some measure of further industry-wide price deflation.

We cannot provide assurance that we will be able to establish or maintain relationships with sufficient or appropriate manufacturers, whether foreign or domestic, to supply us with selected case goods, upholstery and

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home accessory items to enable us to maintain our competitive advantage. In addition, the emergence of foreign manufacturers has served to broaden the competitive landscape. Some of these competitors produce furniture types not manufactured by us and may have greater financial resources available to them or lower costs of operating. This competition could adversely affect our future financial performance.

Failure to successfully anticipate or respond to changes in consumer tastes and trends in a timely manner could adversely impact our business, operating results and financial condition.

Sales of our products are dependent upon consumer acceptance of our product designs, styles, quality and price. We continuously monitor changes in home design trends through attendance at international industry events and fashion shows, internal marketing research, and regular communication with our retailers and design consultants who provide valuable input on consumer tendencies. However, as with all retailers, our business is susceptible to changes in consumer tastes and trends. Such tastes and trends can change rapidly and any delay or failure to anticipate or respond to changing consumer tastes and trends in a timely manner could adversely impact our business, operating results and financial condition.

Our reduced number of manufacturing and logistics sites may increase our exposure to business disruptions and could result in higher transportation costs.

We have reduced the number of manufacturing sites in our case good and upholstery operations, consolidated our distribution network into fewer centers for both wholesale and retail segments, and operate a single accessories plant. Our upholstery operations consist of two upholstery plants on our Maiden, North Carolina campus supported by one cut and sew plant in Mexico. The Company operates one sawmill in support of our case goods operations. Our plants require various raw materials and commodities such as logs and lumber for our case good plants and foam, springs and engineered hardwood board for our upholstery plants. If any of our manufacturing or logistics sites experience significant business interruption, our ability to manufacture products or deliver timely would likely be impacted. While we have long-standing relationships with multiple outside suppliers of our raw materials and commodities, there can be no assurance of their ability to fulfill our supply needs on a timely basis. The consolidation to fewer locations has resulted in longer distances for delivery and could result in higher costs to transport products if fuel costs increase significantly.

Our current and former manufacturing and retail operations and products are subject to increasingly stringent environmental, health and safety requirements.

We use and generate hazardous substances in our manufacturing and retail operations. In addition, both the manufacturing properties on which we currently operate and those on which we have ceased operations are and have been used for industrial purposes. Our manufacturing operations and, to a lesser extent, our retail operations involve risk of personal injury or death. We are subject to increasingly stringent environmental, health and safety laws and regulations relating to our products, current and former properties and our current operations. These laws and regulations provide for substantial fines and criminal sanctions for violations and sometimes require product recalls and/or redesign, the installation of costly pollution control or safety equipment, or costly changes in operations to limit pollution or decrease the likelihood of injuries. In addition, we may become subject to potentially material liabilities for the investigation and cleanup of contaminated properties and to claims alleging personal injury or property damage resulting from exposure to or releases of hazardous substances or personal injury because of an unsafe workplace.

We have been identified as a potentially responsible party in connection with one site that is currently listed, or proposed for inclusion, on the National Priorities List under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, or its state counterpart. In addition, noncompliance with, or stricter enforcement of, existing laws and regulations, adoption of more stringent new laws and regulations, discovery

of previously unknown contamination or imposition of new or increased requirements could require us to incur costs or become the basis of new or increased liabilities that could be material.

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Fluctuations in the price, availability and quality of raw materials could result in increased costs or cause production delays which might result in a decline in sales, either of which could adversely impact our earnings.

We use various types of wood, foam, fibers, fabrics, leathers, and other raw materials in manufacturing our furniture. Certain of our raw materials, including fabrics, are purchased domestically and outside the United States. Fluctuations in the price, availability and quality of raw materials could result in increased costs or a delay in manufacturing our products, which in turn could result in a delay in delivering products to our customers. For example, lumber prices fluctuate over time based on factors such as weather and demand, which in turn, impact availability. Production delays or upward trends in raw material prices could result in lower sales or margins, thereby adversely impacting our earnings.

In addition, certain suppliers may require extensive advance notice of our requirements in order to produce products in the quantities we desire. This long lead time may require us to place orders far in advance of the time when certain products will be offered for sale, thereby exposing us to risks relating to shifts in consumer demand and trends, and any further downturn in the U.S. economy.

We depend on key personnel and could be affected by the loss of their services.

The success of our business depends upon the services of certain senior executives, and in particular, the services of M. Farooq Kathwari, Chairman of the Board, President and Chief Executive Officer, who is the only one of our senior executives who operates under a written employment agreement. The loss of any such person or other key personnel could have a material adverse effect on our business and results of operations.

Our business is sensitive to increasing labor costs, competitive labor markets, our continued ability to retain high-quality personnel and risks of work stoppages.

The market for qualified employees and personnel in the retail and manufacturing industries is highly competitive. Our success depends upon our ability to attract, retain and motivate qualified craftsmen, professional and clerical associates and upon the continued contributions of these individuals. We cannot provide assurance that we will be successful in attracting and retaining qualified personnel. A shortage of qualified personnel may require us to enhance our wage and benefits package in order to compete effectively in the hiring and retention of qualified employees. Our labor costs may continue to increase and such increases may not be recovered. In addition, some of our employees are covered by collective bargaining agreements with local labor unions. Although we do not anticipate any difficulty renegotiating these contracts as they expire, a labor-related stoppage by these unionized employees could adversely affect our business and results of operations. The loss of the services of such personnel or our failure to attract additional qualified personnel could have a material adverse effect on our business, operating results and financial condition.

Our success depends upon our brand, marketing and advertising efforts and pricing strategies. If we are not able to maintain and enhance our brand, or if we are not successful in these other efforts, our business and operating results could be adversely affected.

Maintaining and enhancing our brand is critical to our ability to expand our base of customers and may require us to make substantial investments. Our advertising campaign utilizes television, direct mail, newspapers, magazines and radio to maintain and enhance our existing brand equity. We cannot provide assurance that our marketing, advertising and other efforts to promote and maintain awareness of our brand will not require us to incur substantial costs. If these efforts are unsuccessful or we incur substantial costs in connection with these efforts, our business, operating results and financial condition could be adversely affected.

We may not be able to maintain our current design center locations at current costs. We may also fail to successfully select and secure design center locations.

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Our design centers are typically located in busy urban settings as freestanding destinations or as part of suburban strip malls, depending upon the real estate opportunities in a particular market. Our business competes with other retailers and as a result, our success may be affected by our ability to renew current design center leases and to select and secure appropriate retail locations for existing and future design centers.

Our results of operations for any quarter are not necessarily indicative of our results of operations for a full year.

Sales of furniture and other home furnishing products fluctuate from quarter to quarter due to such factors as changes in global and regional economic conditions, changes in competitive conditions, changes in production schedules in response to seasonal changes in energy costs and weather conditions, and changes in consumer order patterns. From time to time, we have experienced, and may continue to experience, volatility with respect to demand for our home furnishing products. Accordingly, results of operations for any quarter are not necessarily indicative of the results of operations for a full year.

Failure to protect our intellectual property could adversely affect us.

We believe that our patents, trademarks, service marks, trade secrets, copyrights and all of our other intellectual property are important to our success. We rely on patent, trademark, copyright and trade secret laws, and confidentiality and restricted use agreements, to protect our intellectual property and may seek licenses to intellectual property of others. Some of our intellectual property is not covered by any patent, trademark, or copyright or any applications for the same. We cannot provide assurance that agreements designed to protect our intellectual property will not be breached, that we will have adequate remedies for any such breach, or that the efforts we take to protect our proprietary rights will be sufficient or effective. Any significant impairment of our intellectual property rights or failure to obtain licenses of intellectual property from third parties could harm our business or our ability to compete. Moreover, we cannot provide assurance that the use of our technology or proprietary know-how or information does not infringe the intellectual property rights of others. If we have to litigate to protect or defend any of our rights, such litigation could result in significant expense.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters, located in Danbury, Connecticut, consists of one building containing 144,000 square feet, situated on approximately 18.0 acres of land, all of which is owned by us. Located adjacent to the corporate headquarters, and situated on approximately 5.4 acres, is the Ethan Allen Hotel and Conference Center, containing 193 guestrooms. This hotel, owned by a wholly-owned subsidiary of Ethan Allen, is used in connection with Ethan Allen functions and training programs, as well as for functions and accommodations for the general public.

We operate seven manufacturing facilities located in three states and Mexico. All of these facilities are owned by the Company and include three case good plants (including one sawmill) totaling 1,548,845 square feet, three upholstery furniture plants (consisting of two upholstery plants on our Maiden, North Carolina campus and one cut and sew plant in Mexico) totaling 710,539 square feet, and one home accessory plant of 295,000 square feet. In our wholesale division, we own and operate one national distribution center supported by one owned small parcel and fulfillment center which are a combined 823,414 square feet. Our U.S. manufacturing and distribution facilities are located in North Carolina, Vermont, Virginia, Oklahoma, and New Jersey, and our Mexico plant is located in Guanajuato.

We own five and lease 11 retail service centers, totaling 1,072,471 square feet. Our retail service centers are located throughout the United States and Canada and serve to support our various retail sales districts.

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The geographic distribution of our retail design center network as of June 30, 2011 is as follows:

| | Retail Design Center Category | |
|---------------|-------------------------------|---------------------------|
| | Company Operated | Independently Operated |
| United States | 142 | 70 |
| Canada | 5 | 3 |
| Asia | - | 63 |
| Middle East | - | 4 |
| Total | 147 | 140 |

Of the 147 Company-operated retail design centers, 68 of the properties are owned and 79 of the properties are leased from independent third parties. Of the 68 owned design centers, 18 are subject to land leases. We own ten additional retail properties, one of which is leased to an independent Ethan Allen retailer, and two of which are leased to unaffiliated third parties. See Note 8 to the Consolidated Financial Statements included under Item 8 of this Annual Report for more information with respect to our operating lease obligations.

The Beecher Falls, Vermont manufacturing facility was financed, in part, by the Town of Canaan, Vermont. The associated remaining debt bears interest at a fixed rate of 3.00% and a balance at June 30, 2011 of \$0.2 million, with maturities of one to 16 years. We believe that all of our properties are well maintained and in good condition.

We estimate that our manufacturing plants are currently operating at approximately 80% of capacity. We believe we have additional capacity at selected facilities, which we could utilize with minimal additional capital expenditures.

Item 3. Legal Proceedings

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

Environmental Matters

We and our subsidiaries are subject to various environmental laws and regulations. Under these laws, we and/or our subsidiaries are, or may be, required to remove or mitigate the effects on the environment of the disposal or release of certain hazardous materials.

During fiscal 2009, three locations where we and/or our subsidiaries had been named as a Potentially Responsible Party (“PRP”) were resolved. In each case, we were not a major contributor based on the very small volume of waste generated by us in relation to total volume at those sites and were able to take part in de minimis settlement arrangements. In August 2010, the Company resolved the remaining environmental case in Carroll, New York in which it had been named as a PRP. As of June 30, 2011, we believe that the company is adequately reserved. We believe our currently anticipated capital expenditures for environmental control facility matters are not material.

We are subject to other federal, state and local environmental protection laws and regulations and are involved, from time to time, in investigations and proceedings regarding environmental matters. Such investigations and proceedings typically concern air emissions, water discharges, and/or management of solid and hazardous wastes. We believe that our facilities are in material compliance with all such applicable laws and regulations.

Regulations issued under the Clean Air Act Amendments of 1990 required the industry to reformulate certain furniture finishes or institute process changes to reduce emissions of volatile organic compounds. Compliance

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with many of these requirements has been facilitated through the introduction of high solids coating technology and alternative formulations. In addition, we have instituted a variety of technical and procedural controls, including reformulation of finishing materials to reduce toxicity, implementation of high velocity low pressure spray systems, development of storm water protection plans and controls, and further development of related inspection/audit teams, all of which have served to reduce emissions per unit of production. We remain committed to implementing new waste minimization programs and/or enhancing existing programs with the objective of (i) reducing the total volume of waste, (ii) limiting the liability associated with waste disposal, and (iii) continuously improving environmental and job safety programs on the factory floor which serve to minimize emissions and safety risks for employees. We will continue to evaluate the most appropriate, cost effective, control technologies for finishing operations and design production methods to reduce the use of hazardous materials in the manufacturing process.

Item 4. Reserved

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the New York Stock Exchange under ticker symbol "ETH". The following table sets forth, for each quarterly period during the past two fiscal years, (i) the intraday high and low and stock prices as reported on the New York Stock Exchange and (ii) the dividend per share paid by us:

| | Market Price | | Dividend |
|----------------|--------------|----------|-----------|
| | High | Low | Per Share |
| Fiscal 2011 | | | |
| First Quarter | \$ 17.77 | \$ 12.35 | \$ 0.05 |
| Second Quarter | 21.42 | 14.56 | 0.05 |
| Third Quarter | 25.05 | 19.01 | 0.05 |
| Fourth Quarter | 25.37 | 18.50 | 0.07 |
| Fiscal 2010 | | | |
| First Quarter | \$ 17.62 | \$ 9.97 | \$ 0.05 |
| Second Quarter | 16.96 | 11.00 | 0.05 |
| Third Quarter | 22.00 | 13.00 | 0.05 |
| Fourth Quarter | 25.40 | 13.82 | 0.05 |

As of August 10, 2011, there were 322 shareholders of record of our common stock. Management estimates there are approximately 11,000 beneficial shareholders of the Company's common stock. On July 26, 2011, we declared a dividend of \$0.07 per common share, payable on October 25, 2011 to shareholders of record as of October 10, 2011. We expect to continue to declare quarterly dividends for the foreseeable future, business conditions permitting.

Equity Compensation Plan Information

The information required by this Item 5 with respect to Equity Compensation Plan Information is set forth in Item 12 – Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, contained in this Annual Report and incorporated herein by reference.

Issuer Purchases of Equity Securities

On November 21, 2002, our Board of Directors approved a share repurchase program authorizing us to repurchase up to 2,000,000 shares of our common stock, from time to time, either directly or through agents, in the open market at prices and on terms satisfactory to us. Subsequent to that date, the Board of Directors increased the remaining authorization on seven separate occasions, the last of which was on November 13, 2007.

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There were no share repurchases during the quarter ended June 30, 2011. As of June 30, 2011, we had a remaining Board authorization to repurchase 1,180,783 shares.

Stockholder Rights Plan

We have a Stockholder Rights Plan, a description of which is set forth in Note 9 to the Consolidated Financial Statements included under Item 8 of this Annual Report and incorporated herein by reference. Such description contains all of the required information with respect thereto.

Comparative Company Performance

The following line graph compares cumulative total stockholder return for the Company with a performance indicator of the overall stock market, the Standard & Poor's 500 Index, and an industry index, the Peer Issuer Group Index, assuming \$100 was invested on June 30, 2006. The peer group includes Bassett Furniture Industries, Inc., Chromcraft Revington, Inc., Flexsteel Industries, Inc., Furniture Brands International, Inc., Haverty Furniture Companies, Inc., La-Z-boy Inc., Leggett & Platt, Inc., and Pier 1 Imports Inc. The returns of each company have been weighted according to each company's market capitalization.

Item 6. Selected Financial Data

The following table presents selected financial data for the fiscal years ended June 30, 2011, 2010, 2009, 2008 and 2007 which has been derived from our consolidated financial statements (dollar amounts in thousands except per share data). The information set forth below should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included under Item 7 of this Annual Report and our Consolidated Financial Statements (including the notes thereto) included under Item 8 of this Annual Report.

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| | Fiscal Year Ended June 30, | | | | | | | | | |
|---|----------------------------|-----------|------|-----------|------|-----------|------|-----------|------|-----------|
| | 2011 | | 2010 | | 2009 | | 2008 | | 2007 | |
| Statement of Operations Data: | | | | | | | | | | |
| Net sales | \$ | 678,960 | \$ | 590,054 | \$ | 674,277 | \$ | 980,045 | \$ | 1,005,312 |
| Cost of sales | | 329,500 | | 309,777 | | 326,935 | | 453,980 | | 478,729 |
| Selling, general and administrative expenses | | 316,401 | | 289,575 | | 353,112 | | 423,229 | | 402,022 |
| Restructuring and impairment charges, net | | 1,126 | | 2,437 | | 67,001 | | 6,836 | | 13,442 |
| Operating income (loss) | | 31,933 | | (11,735) | | (72,771) | | 96,000 | | 111,119 |
| Interest and other expense, net | | 5,562 | | 7,052 | | 8,409 | | 3,822 | | 1,393 |
| Income (loss) before income tax expense | | 26,371 | | (18,787) | | (81,180) | | 92,178 | | 109,726 |
| Income tax expense (benefit) | | (2,879) | | 25,529 | | (28,493) | | 34,106 | | 40,499 |
| Net income (loss) | \$ | 29,250 | \$ | (44,316) | \$ | (52,687) | \$ | 58,072 | \$ | 69,227 |
| Per Share Data: | | | | | | | | | | |
| Net income (loss) per basic share | \$ | 1.02 | \$ | (1.53) | \$ | (1.83) | \$ | 1.98 | \$ | 2.19 |
| Basic weighted average shares outstanding | | 28,758 | | 28,982 | | 28,814 | | 29,267 | | 31,566 |
| Net income (loss) per diluted share | \$ | 1.01 | \$ | (1.53) | \$ | (1.83) | \$ | 1.97 | \$ | 2.15 |
| Diluted weighted average shares outstanding | | 28,966 | | 28,982 | | 28,814 | | 29,470 | | 32,261 |
| Cash dividends per share | \$ | 0.22 | \$ | 0.20 | \$ | 0.65 | \$ | 0.88 | \$ | 0.80 |
| Other Information: | | | | | | | | | | |
| Depreciation and amortization | \$ | 20,816 | \$ | 29,398 | \$ | 25,635 | \$ | 24,670 | \$ | 23,013 |
| Capital expenditures and acquisitions | \$ | 12,051 | \$ | 9,972 | \$ | 23,903 | \$ | 67,815 | \$ | 74,370 |
| Working capital | \$ | 113,912 | \$ | 113,950 | \$ | 139,239 | \$ | 176,796 | \$ | 234,990 |
| Current ratio | | 1.74 to 1 | | 1.78 to 1 | | 2.24 to 1 | | 2.30 to 1 | | 2.59 to 1 |
| Effective tax rate | | -10.9 % | | -135.9 % | | 35.1 % | | 37.0 % | | 36.9 % |
| Balance Sheet Data (at end of period): | | | | | | | | | | |
| Total assets | \$ | 628,325 | \$ | 631,777 | \$ | 646,485 | \$ | 764,093 | \$ | 802,598 |
| Total debt, including capital lease obligations | | 165,032 | | 203,267 | | 203,148 | | 203,029 | | 202,908 |
| Shareholders' equity | \$ | 281,687 | \$ | 258,459 | \$ | 305,923 | \$ | 375,773 | \$ | 409,642 |
| Debt as a percentage of equity | | 58.6 % | | 78.6 % | | 66.4 % | | 54.0 % | | 49.5 % |
| Debt as a percentage of capital | | 36.9 % | | 44.0 % | | 39.9 % | | 35.1 % | | 33.1 % |

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

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

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Forward-Looking Statements

Management's discussion and analysis of financial condition and results of operations and other sections of this Annual Report contain forward-looking statements relating to our future results. Such forward-looking statements are identified by use of forward-looking words such as "anticipates", "believes", "plans", "estimates", "expects", and "intends" or words or phrases of similar expression. These forward-looking statements are subject to management decisions and various assumptions, risks and uncertainties, including, but not limited to: the effects of terrorist attacks or conflicts or wars involving the United States or its allies or trading partners; the potential effects of natural disasters affecting our suppliers or trading partners; the effects of labor strikes; weather conditions that may affect sales; volatility in fuel, utility, transportation and security costs; changes in global or regional political or economic conditions, including changes in governmental and central bank policies; changes in business conditions in the furniture industry, including changes in consumer spending patterns and demand for home furnishings; effects of our brand awareness and marketing programs, including changes in demand for our existing and new products; our ability to locate new design center sites and/or negotiate favorable lease terms for additional design centers or for the expansion of existing design centers; competitive factors, including changes in products or marketing efforts of others; pricing pressures; fluctuations in interest rates and the cost, availability and quality of raw materials; those matters discussed in Items 1A and 7A of this Annual Report and in our SEC filings; and our future decisions. Accordingly, actual circumstances and results could differ materially from those contemplated by the forward-looking statements.

Critical Accounting Policies

Our consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles that require, in some cases, that certain estimates and assumptions be made that affect the amounts and disclosures reported in those financial statements and the related accompanying notes. Estimates are based on currently known facts and circumstances, prior experience and other assumptions believed to be reasonable. We use our best judgment in valuing these estimates and may, as warranted, solicit external advice. Actual results could differ from these estimates, assumptions and judgments, and these differences could be material. The following critical accounting policies, some of which are impacted significantly by estimates, assumptions and judgments, affect our consolidated financial statements.

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). We estimate an inventory reserve for excess quantities and obsolete items based on specific identification and historical write-downs, 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. As such, revenue recognition occurs upon the shipment of goods to independent retailers or, in the case of Ethan Allen-operated retail design centers, upon delivery to the customer. Recorded sales provide for estimated returns and allowances. We permit our customers to return defective products and incorrect shipments, and terms we offer are standard for the industry.

During the third quarter of fiscal 2011, as a result of the growth of our independent retailer in China, and at their request, a separate section of an existing Ethan Allen warehouse was established by us to hold sold product on their behalf. At March 31, 2011, \$5.2 million of sold product was held in this warehouse, and recorded as revenue during that third quarter. We delivered that product during the fourth quarter. At June 30, 2011, \$0.7 million of sold product

was held in the warehouse, and is part of our net sales for the fourth quarter of fiscal 2011. Under this

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arrangement, after a fixed commitment by the customer is made, the Company recognizes revenue when the sales price is fixed, collectability is reasonably assured, title and risk of ownership has passed to the customer, no specific performance obligations remain, and a fixed schedule of delivery is agreed upon and in place. The substantial business purpose for the customer request was to provide additional warehouse space to support their business expansion plans and to reduce delivery lead times.

Allowance for Doubtful Accounts – We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our 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 collectability of accounts receivable based on historical experience and current economic trends. Actual losses could differ from those estimates.

Retail Design Center Acquisitions - We account for the acquisition of retail design centers and related assets with the purchase method. 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 – We periodically evaluate whether events or circumstances have occurred that indicate that long-lived and indefinite-lived assets may not be recoverable or that the remaining useful life may warrant revision. When such events or circumstances are present, the Company determines whether the carrying value exceeds the fair value as described below.

The recoverability of long-lived assets are evaluated for impairment 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 cash inflows and outflows several years into the future and only takes into consideration technological advances known at the time of the impairment test.

Goodwill and other indefinite-lived intangible assets are evaluated for impairment on an annual basis and between annual tests whenever events or circumstances indicate that the carrying value of the goodwill or other intangible asset may exceed its fair value. We conduct our required annual impairment test of goodwill and other intangible assets during the fourth quarter of each fiscal year.

To evaluate goodwill, the Company determines the current fair value of the Reporting Units using a combination of “Market” and “Income” approaches. In the Market approach, the “Guideline Company” method is used, which focuses on comparing the Company's risk profile and growth prospects to reasonably similar publicly traded companies. Key assumptions used for the Guideline Company method are total invested capital (“TIC”) multiples for revenues and operating cash flows, as well as consideration of control premiums. The TIC multiples are determined based on public furniture companies within our peer group, and if appropriate, recent comparable transactions are considered. Control premiums are determined using recent comparable transactions in the open market. Under the Income approach, a discounted cash flow method is used, which includes a terminal value, and is based on external analyst financial projection estimates, as well as internal financial projection estimates prepared by management. The long-term terminal growth rate assumptions reflect our current long-term view of the market in which we compete. Discount rates use the weighted average cost of capital for companies within our peer group, adjusted for specific company risk premium factors.

The fair value of our trade name, which is the Company's only indefinite-lived intangible asset other than goodwill, is valued using the relief-from-royalty method. Significant factors used in trade name valuation are rates for royalties,

future growth, and a discount factor. Royalty rates are determined using an average of recent comparable values. Future growth rates are based on the Company's perception of the long-term values in the

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market in which we compete, and the discount rate is determined using the weighted average cost of capital for companies within our peer group, adjusted for specific company risk premium factors.

The Company performs its annual impairment test in the fourth quarter of each fiscal year. In fiscal 2009, the Company recorded an impairment charge for \$48.4 million for the retail segment. There was no impairment in either 2011 or 2010. The fair values of the wholesale reporting unit and trade name exceeded their carrying value by a substantial margin. To calculate fair value of these assets, management relies on estimates and assumptions which by their nature have varying degrees of uncertainty. Wherever possible, management therefore looks for third party transactions as described above to provide the best possible support for the assumptions incorporated. Management considers several factors to be significant when estimating fair value including expected financial outlook of the business, changes in the Company's stock price, the impact of changing market conditions on financial performance and expected future cash flows, and other factors. Deterioration in any of these factors may result in a lower fair value assessment, which could lead to impairment of the long-lived assets and goodwill of the Company.

Income Taxes – Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Additional factors that we consider when making judgments about the deferred tax valuation include tax law changes, a recent history of cumulative losses, and variances in future projected profitability.

The Company evaluates quarterly uncertain tax positions taken or expected to be taken on tax returns for recognition, measurement, presentation, and disclosure in its financial statements. If an income tax position exceeds a 50% probability of success upon tax audit, based solely on the technical merits of the position, the Company recognizes an income tax benefit in its financial statements. The tax benefits recognized are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The liability associated with an unrecognized tax benefit is classified as a long-term liability except for the amount for which a cash payment is expected to be made or tax positions settled within one year. We recognize interest and penalties related to income tax matters as a component of income tax expense.

Business Insurance Reserves – We have 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. We accrue estimated losses using actuarial models and assumptions based on historical loss experience. Although we believe 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. We adjust insurance reserves, as needed, in the event that future loss experience differs from historical loss patterns.

Other Loss Reserves – We have a number of other potential loss exposures incurred in the ordinary course of business such as environmental claims, product liability, litigation, tax liabilities, restructuring charges, and the recoverability of deferred income tax benefits. Establishing loss reserves for these matters requires the use of estimates and judgment with regard to maximum risk exposure and ultimate liability or realization. As a result, these estimates are often developed with our counsel, or other appropriate advisors, and are based on our 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.

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Basis of Presentation

As of June 30, 2011, Ethan Allen Interiors Inc. has no material assets other than its ownership of the capital stock of Ethan Allen Global, Inc. and conducts all significant transactions through Ethan Allen Global, Inc.; therefore, substantially all of the financial information presented herein is that of Ethan Allen Global, Inc.

Results of Operations

Our Company and the furniture industry are slowly recovering from the 'Great Recession' in the United States and abroad. Unemployment remains high, capital markets volatile, and housing metrics including credit availability remain well below pre-Great Recession levels. Despite this, we have seen consumer spending slowly improving, beginning in fiscal 2010. The many actions we have taken to significantly reduce costs have allowed us to return to profitability, by changing many aspects of our business. We consolidated our manufacturing footprint to seven facilities in North America where more than 70% of our products are made. We also converted our remaining case good plants from forecasted demand based manufacturing to manufacture after a custom order is received. This provides a significant differentiating factor in the market, and results in efficiencies in our manufacturing and logistics operations. We believe we have retained sufficient scalable capacity domestically and abroad to meet higher volumes of demand. We consolidated our logistics for both our wholesale and retail divisions resulting in one major wholesale distribution center and 16 retail service centers operated by the Company.

We have also changed our retail footprint. We consolidated multiple design centers serving the same market into one, prominently located design center and closed underperforming locations. At June 30, 2011, the Company operated 147 design centers compared with 159 at June 30, 2009. Independent retailers operated 140 design centers at June 30, 2011 compared with 134 at June 30, 2009, with 24 more international design centers than at June 30, 2009. The increase in international design centers increased our international net sales to 6.3% of our consolidated net sales for the year ended June 30, 2011, with most of the growth coming from China.

We continue to see improvement in consumer spending. For both our wholesale and retail business segments, we have now had six consecutive quarters of year over year sales growth. We have had our first four consecutive quarterly profits since December 2008. We have been hiring associates to support the ramping up of production in our manufacturing, adding highly skilled interior designers in our retail division, and continuing to increase our spending in marketing and advertising to drive consumer traffic. In taking these actions to grow the business, we remain cautious but optimistic.

Income Tax Valuation Allowance:

As a result of losses we sustained for fiscal 2010 and 2009, which were brought on by the severe economic factors discussed earlier, we assessed the likelihood that we would be able to realize the benefits of our deferred tax assets. As a result, a full valuation allowance was established as of June 30, 2010. On that date, the Company had a three year cumulative loss. As of June 30, 2011, the Company remains in a three year cumulative loss and the full valuation allowance remains in place, though at a reduced level after recording the impact of the changes in tax accounting methods made in the quarter ended December 31, 2010. The valuation allowance at June 30, 2011 was \$23.5 million vs. \$36.2 million at June 30, 2010. Of the total decrease, \$10.2 million is related to tax accounting method changes reported in our tax returns for the fiscal year ended June 30, 2010.

Restructuring Activities:

During fiscal 2009 and 2008, we announced and executed plans to consolidate our operations as part of an overall strategy to maximize production efficiencies and maintain our competitive advantage. These restructuring activities

are now complete. There is a remaining liability at June 30, 2011 of \$2.5 million for non-cancellable lease obligations with expirations ranging from less than one to 22 years. Changes in the estimated future costs of these obligations are included as restructuring and impairment charges in the Statement of Operations, and the

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Company's restructuring reserve is classified with accrued expenses and other current liabilities in the Consolidated Balance Sheets.

Business Results:

Our revenues are comprised of (i) wholesale sales to independently operated and Company-operated retail design centers and (ii) retail sales of Company-operated design centers. See Note 16 to our Consolidated Financial Statements for the year ended June 30, 2011 included under Item 8 of this Annual Report.

The components of consolidated revenues and operating income (loss) are as follows (in millions):

| | Fiscal Year Ended June 30, | | |
|--|----------------------------|------------|------------|
| | 2011 | 2010 | 2009 |
| Revenue: | | | |
| Wholesale segment | \$ 422.9 | \$ 362.5 | \$ 403.4 |
| Retail segment | 505.9 | 438.5 | 508.6 |
| Elimination of inter-segment sales | (249.8) | (210.9) | (237.7) |
| Consolidated revenue | \$ 679.0 | \$ 590.1 | \$ 674.3 |
| Operating Income (loss): | | | |
| Wholesale segment (1) | \$ 49.2 | \$ 14.2 | \$ 6.7 |
| Retail segment (2) | (14.7) | (28.7) | (92.1) |
| Adjustment for inter-company profit(3) | (2.6) | 2.8 | 12.6 |
| Consolidated operating income | \$ 31.9 | \$ (11.7) | \$ (72.8) |

- (1) Operating income for the wholesale segment for the twelve months ended June 2010 and 2009 includes pre-tax restructuring and impairment charges (credit) of (\$0.2) million and \$17.4 million, respectively.
- (2) Operating income for the retail segment for the twelve months ended June 2011, 2010 and 2009 includes pre-tax restructuring and impairment charges of \$1.1 million, \$2.7 million and \$49.6 million, respectively.
- (3) Represents the change in wholesale profit contained in Ethan Allen-operated design center inventory existing at the end of the period.

Fiscal 2011 Compared to Fiscal 2010

Consolidated revenue for the fiscal year ended June 30, 2011 increased by \$88.9 million, or 15.1%, to \$679.0 million, from \$590.1 million in fiscal 2010. There was year-over-year growth in both the wholesale and retail segments, for net sales, written orders, and backlogs. We believe this growth is due to (i) continued new and innovative marketing initiatives including promotional pricing and our interactive web site ethanallen.com, (ii) a significant increase in advertising, where we continue to invest in national television and direct mail media, emphasizing to our target audience our interior design services and the full line of our quality product offerings, (iii) increased use of digital communications including periodic distribution of e-magazines to increase client exposures and drive traffic to our website and design centers, (iv) an increase in the number of our highly skilled interior designers and other retail associates, and (v) our continued repositioning of the retail network.

Wholesale revenue for fiscal 2011 increased by \$60.5 million, or 16.7%, to \$422.9 million from \$362.5 million in the prior year. The year-over-year increase was primarily attributable to an increase in the incoming order rate as we began to see a gradual though inconsistent improvement in consumer spending. We believe this improvement is due to

our promotional activities, our ability to increase production through operating efficiencies, staffing increases, and to a lesser extent, an increase in the number of total design centers globally to 287 from 281 at June 30, 2010. The independently operated retail network grew by four net design centers to 140 at June 30, 2011 and

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there were two net additional Ethan Allen-operated design centers. Wholesale orders increased 6.0% in fiscal 2011 compared to fiscal 2010.

Retail revenue from Ethan Allen-operated design centers for the twelve months ended June 30, 2011 increased by \$67.4 million, or 15.4%, to \$505.9 million from \$438.5 million for the twelve months ended June 30, 2010. We believe the increase in retail sales by Ethan Allen-operated design centers is due to our promotional marketing campaigns and the design solutions approach of our interior design professionals, increases in advertising, where we continue to invest in national television and direct mail media, our digital communications to prospective clients, the positive effects of repositioning the retail network, and an increase in the number of highly skilled interior designers, retail management, and other retail associates, and by a net increase of two Ethan Allen-operated design centers between June 30, 2011 and June 30, 2010. We ended the current year with 147 Ethan Allen-operated design centers; including six acquired from independent dealers since June 30, 2010.

Comparable design centers are those which have been operating for at least 15 months. Minimal net sales, derived from the delivery of customer ordered product, are generated during the first three months of operations of newly opened (including relocated) design centers. Design centers acquired by us from independent retailers are included in comparable design centers sales in their 13th full month of Ethan Allen-owned operations. Year-over-year, written business of Ethan Allen-operated design centers increased 7.7% and comparable design centers written business increased 10.3%. The frequency of our promotional events as well as the timing of the end of those events can impact the orders booked during a given period.

We have made considerable investment within the retail network to strengthen the level of service, professionalism, interior design competence, efficiency, and effectiveness of the retail design center personnel. We believe that over time, we will continue to benefit from (i) our repositioning of the retail network, (ii) new product introductions, (iii) new marketing promotions, and our interior design affiliate (IDA) program, (iv) continued use of technology including our state-of-the-art website coupled with personal service from our design professionals and our touch screen displays, and (v) ongoing use of targeted advertising media.

Gross profit for fiscal 2011 increased to \$349.5 million from \$280.3 million in fiscal 2010. The \$69.2 million increase in gross profit was primarily attributable to (i) a combined increase in both wholesale and retail sales of 15.1%, (ii) the benefit in fiscal 2011 of a full year of streamlined and more efficient manufacturing processes which were in progress during the prior fiscal year, and (iii) to a lesser extent some net pricing benefit and higher average merchandise sales per invoice. With the improvements in orders, we operated our plants at approximately 80% of capacity during fiscal 2011, up from 60% in fiscal 2010. The consolidated gross margin increased to 51.5% for fiscal 2011 from 47.5% in fiscal 2010 as a result, primarily, of the factors set forth above.

Operating expenses increased \$25.5 million, or 8.7%, to \$317.5 million, or 46.8% of net sales, in fiscal 2011 from \$292.0 million, or 49.5% of net sales, in fiscal 2010. The increase in current year expenses and the decrease as a percent of sales are primarily due to the increase in sales which primarily affected commissions and delivery and warehousing costs. There was also a \$5.2 million increase in commission charges in the current year, due to a change in the commission structure made in fiscal 2010. We also increased our investment in our advertising campaigns driving those expenses \$5.4 million or 26% higher.

Consolidated operating income for the year ended June 30, 2011 totaled \$31.9 million, or 4.7% of net sales, compared to a loss of \$11.7 million, or 2.0% of net sales, in the prior year. The improvement of \$43.7 million was largely attributable to (i) the \$88.9 million increase in net sales, and (ii) operating efficiencies noted earlier as a result of the restructuring completed in fiscal 2010.

Wholesale operating income for fiscal 2011 totaled \$49.2 million, or 11.6% of net sales, as compared to \$14.2 million, or 3.9% of net sales, in the prior year. The increase of \$35.0 million was primarily attributable to an increase in sales volume and operating efficiencies of our manufacturing plants and wholesale logistics operations.

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Retail operating loss was \$14.7 million, or 2.9% of sales, for fiscal 2011, compared to a loss of \$28.7 million, or 6.6% of sales, for fiscal 2010, an improvement of \$14.1 million. The increase in net sales and the positive effects of cost cutting efforts taken in recent years were the primary drivers, partly offset by the benefit in 2010 from the change in commission structure, our current year increased investment in advertising, and our retail staffing increases aimed at driving continued growth in the business.

Interest and other income, net totaled \$5.6 million in fiscal 2011 as compared to \$4.9 million in fiscal 2010. The \$0.7 million increase was mostly due to the recording of a \$1.5 million out of period adjustment related to non-operating income recorded in the first quarter of the current fiscal year.

Interest and other related financing costs decreased \$0.8 million to \$11.1 million from \$11.9 million in the prior year. The decrease is primarily due to the decrease in the principal amount of our senior unsecured debt outstanding as a result of our repurchases of an aggregate of \$34.6 million of that debt during fiscal 2011.

Income tax was a benefit of \$2.9 million for fiscal 2011 as compared to expense of \$25.5 million for fiscal 2010. Our effective tax rate for fiscal 2011 was a negative 10.9% compared to a negative 136% in fiscal 2010. The effective tax rate for fiscal 2011 was impacted by a tax benefit from the reduction in valuation allowance due to a decrease in deferred tax assets which were subject to a full valuation allowance. The rate was also impacted by a net tax benefit from the expiration of the statute of limitations causing certain unrecognized tax benefits to be recognized, partly offset by new tax issues that were identified in the year. The significant decrease in the valuation allowance recorded was due primarily to a change in tax accounting methods applied in the Company's U.S. federal tax filing for the fiscal year ended June 30, 2010 which accelerated tax expenses for depreciation, inventory and professional fees that were previously treated as deferred tax assets. This change resulted in an increase in the U.S. federal and state net operating losses ("NOL") reported for the fiscal year ended June 30, 2010. The federal NOL was carried back to fiscal year ended June 30, 2008.

Net income for fiscal 2011 was \$29.3 million as compared to a net loss of \$44.3 million in fiscal 2010. Net income per diluted share totaled \$1.01 in the current year compared to net loss of \$1.53 per diluted share in the prior year.

Fiscal 2010 Compared to Fiscal 2009

Consolidated revenue for the fiscal year ended June 30, 2010 decreased by \$84.2 million, or 12.5%, to \$590.1 million, from \$674.3 million in fiscal 2009. Net sales for the period largely reflected the delivery of product associated with booked orders and the change in backlog from the beginning to the end of the period. Especially in the first half of fiscal 2010, sales continued to be affected by the negative economic stresses which we began experiencing in the second quarter of fiscal 2009. These factors were partially offset by (i) several new marketing initiatives that focus on the exceptional value proposition of our offerings through special savings promotions and our interactive web site ethanallen.com, (ii) the continued use of national television media supported by direct mail and electronic magazines, and (iii) the positive effects of efforts to reposition the retail network. These efforts resulted in a 21% increase in incoming retail orders during the second half of fiscal 2010.

Wholesale revenue for fiscal 2010 decreased by \$40.9 million, or 10.1%, to \$362.5 million from \$403.4 million in the prior year. The year-over-year decrease was primarily attributable to a decline in the incoming order rate during the first half of fiscal 2010 as a result of the continued soft retail environment for home furnishings. This was partly offset by an increase in the incoming order rate during the second half of fiscal 2010, and from an increase in independent retail design centers to 136 from 134 including one location transferred in to the company's retail division during the year. Wholesale orders increased 30% during the second half of fiscal 2010 compared to the second half of fiscal 2009, after decreasing 20% during the first half of fiscal 2010 compared to the first half of fiscal 2009.

Retail revenue from Ethan Allen-operated design centers for the twelve months ended June 30, 2010 decreased by \$70.1 million, or 13.8%, to \$438.5 million from \$508.6 million for the twelve months ended June 30, 2009. The

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decrease in retail sales by Ethan Allen-operated design centers was attributable to a decrease in comparable design center delivered sales of \$84.6 million, or 30% during the first half of fiscal 2010. This unfavorable variance was partially offset during the second half of fiscal 2010 by a \$31.2 million, or 17% increase in comparable design center delivered sales compared to the second half of fiscal 2009. Newly opened (including relocated) or acquired design centers contributed sales of \$13.7 million. The number of Ethan Allen-operated design centers decreased to 145 at June 30, 2010 from 159 at June 30, 2009. During that twelve month period, we acquired one design center from an independent retailer, and opened four new design centers (of which three were relocations).

Comparable design centers are those that have been operating for at least 15 months. Minimal net sales, derived from the delivery of customer ordered product, are generated during the first three months of operations of newly opened (including relocated) design centers. Design centers acquired by us from independent retailers are included in comparable design center sales in their 13th full month of Ethan Allen-operated operations.

Year-over-year, written business of Ethan Allen-operated design centers increased 1.4% for the year, and comparable design center written business increased 4.9%, reflecting to some degree the benefit of our retail consolidation strategy to serve given markets with fewer design centers but to improve the use of technology and design support. While written business continued to reflect the soft retail environment for home furnishings noted throughout fiscal 2010, retail written orders during the second half of fiscal 2010 have increased 21% from fiscal 2009, having decreased 15% from fiscal 2009 during the first half. We believe that over time, we will benefit from our (i) repositioning the retail network, (ii) new product introductions including custom case good products, (iii) several new marketing initiatives described previously, and (iv) our continued use of national television and shelter magazines as advertising media supported by direct mail and electronic magazines.

Gross profit for fiscal 2010 declined to \$280.3 million from \$347.3 million in fiscal 2009. The \$67.1 million decrease in gross profit was primarily attributable to a combined decline in both wholesale and retail sales of 12.5%, along with a shift in sales mix with retail sales representing a lower proportionate share of total sales in fiscal 2010 (74.3%) as compared to the full fiscal 2009 year (75.4%). Gross margin decreased partially due to \$6.6 million of accelerated depreciation recorded in fiscal 2010 related to restructuring actions, temporary manufacturing disruptions caused by restructuring activities, and the conversion of our domestic case goods to custom manufacturing. Because of the consolidation of several wholesale distribution, upholstery and case good plants, we were able to increase absorption of overhead costs despite the sales decline, and to operate at approximately 60% of capacity during fiscal 2010, up from 50% one year prior. The consolidated gross margin decreased to 47.5% for fiscal 2010 from 51.5% in fiscal 2009 as a result, primarily, of the factors set forth above.

Operating expenses decreased \$128.1 million, or 30.5%, to \$292.0 million, or 49.5% of net sales, in fiscal 2010 from \$420.1 million, or 62.3% of net sales, in fiscal 2009. Decreases were experienced due to a non-cash goodwill impairment charge of \$48.4 million recorded in the March 2009 quarter that did not recur in fiscal 2010 and a \$16.2 million year-over-year decrease in restructuring and impairment charges. There was also a \$12.2 million reduction in commission charges due to changes in the commission plans occurring in both years. Cost cutting efforts taken by the Company also reduced salaries, benefits and occupancy costs. Advertising expenses were reduced while still maintaining our national presence, and delivery and warehousing costs were lower due to decreased sales.

Consolidated operating loss for the year ended June 30, 2010 totaled a loss of \$11.7 million, or 2.0% of net sales, compared to a loss of \$72.8 million, or 10.8% of net sales, in the prior year. The improvement of \$61.1 million was largely attributable to (i) the one-time nature of the March 2009 \$48.4 million goodwill impairment charge, (ii) decreased restructuring and impairment charges and (iii) net declines in other operating expenses all of which were partially offset by the decline in gross profit due in part by the \$6.6 million accelerated depreciation recorded in the first quarter of fiscal 2010.

Wholesale operating income for fiscal 2010 totaled \$14.2 million, or 3.9% of net sales, as compared to \$6.7 million, or 1.7% of net sales, in the prior year. The increase of \$7.5 million was primarily attributable to (i) a \$17.6 million decrease in restructuring and impairment charges due to the 2009 restructuring actions discussed earlier, partly

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offset by the \$6.6 million in accelerated depreciation taken during the first quarter of fiscal 2010 as a result of those same restructuring activities.

Retail operating loss was \$28.7 million, or 6.6% of sales, for fiscal 2010, compared to a loss of \$92.1 million, or 18.1% of sales, for fiscal 2009, an improvement of \$63.4 million. The primary reasons for the improvement were the \$48.4 million goodwill impairment charge in March 2009, the net impact of commission changes in both years, and the positive effects of cost cutting efforts taken by the Company.

Interest and other income, net totaled \$4.9 million in fiscal 2010 as compared to \$3.4 million in fiscal 2009. The \$1.5 million increase was mostly due to miscellaneous non-operating fees, partly offset by reduced investment income resulting from lower rates of interest during fiscal 2010.

Interest and other related financing costs remained largely unchanged at \$11.9 million compared to \$11.8 million in the prior year. These amounts mostly consist of interest expense on our senior unsecured debt issued in September 2005.

Income tax expense was \$25.5 million for fiscal 2010 as compared to a benefit of \$28.5 million for fiscal 2009. Our effective tax rate for fiscal 2010 was a negative 136% compared to a positive 35.1% in the prior year. The effective tax rate for fiscal 2010 was impacted by an additional valuation allowance recorded during fiscal 2010 against all of our federal and certain state deferred tax assets.

Net loss for fiscal 2010 was \$44.3 million as compared to a loss of \$52.7 million in fiscal 2009. Net loss per diluted share totaled \$1.53 in fiscal 2010 compared to net loss of \$1.83 per diluted share in the prior fiscal year.

Liquidity and Capital Resources

As of June 30, 2011, we held cash and cash equivalents of \$78.5 million, marketable securities of \$12.9 million, and restricted cash and investments of \$16.4 million. Our principal sources of liquidity include cash and cash equivalents, cash flow from operations, and borrowing capacity under our revolving credit facility.

In March 2011, the Company amended its \$60 million senior secured, asset-based, revolving credit facility which was due to expire in fiscal 2012. As amended, this facility (the "Amended Facility") provides revolving credit financing of up to \$50 million, subject to borrowing base availability, and includes a right for the Company to increase the total facility to \$100 million either with existing or additional lenders subject to certain conditions. The Amended Facility was extended by approximately four years to March 25, 2016, or to June 26, 2015 if the Company's Senior Notes (as defined below) have not been refinanced. At the Company's option, revolving loans under the Amended Facility bear interest at an annual rate of either:

- (a) London Interbank Offered rate ("LIBOR") plus 2.0% to 2.5%, based on the average availability, or
- (b) The higher of (i) a prime rate, (ii) the federal funds effective rate plus 0.50%, or (iii) LIBOR plus 1.0% plus, in each case, an additional 1.0% to 1.5%, based on average availability.

The Company pays a commitment fee of 0.25% per annum on the unused portion of the Amended Facility and participation fees on issued letters of credit at an annual rate of 1.0% to 2.5%, based on the average availability and the letter of credit type. If the average monthly availability is less than the greater of (i) 12.5% of the aggregate commitment and (ii) \$6.3 million, the Company's fixed charge coverage ratio may not be less than 1 to 1 for any period of four consecutive fiscal quarters. Certain payments are restricted if the availability of the collateral supporting the facility falls below \$10 million or 20% of the facility size.

The Amended Facility is secured by all property owned, leased or operated by the Company in the United States excluding any real property owned by the Company and contains customary covenants which may limit the Company's ability to incur debt; engage in mergers and consolidations; make restricted payments (including dividends); sell certain assets; and make investments. At June 30, 2011, we had no revolving loans and \$0.7 million of standby and trade letters of credit outstanding under the Amended Facility. Remaining availability under the

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facility totaled \$49.3 million subject to limitations set forth in the agreement and as a result, the coverage charge ratio, and other restricted payment limitations did not apply.

In September 2005, we issued \$200.0 million in ten-year senior unsecured notes due 2015 (the "Senior Notes"). The Senior Notes were issued by Global, bearing an annual coupon rate of 5.375% with interest payable semi-annually in arrears on April 1 and October 1. We have used the net proceeds of \$198.4 million to improve our retail network, invest in our manufacturing and logistics operations, and for other general corporate purposes. During the 2011 fiscal year, the Company repurchased \$34.6 million of the Senior Notes in several unsolicited transactions.

As of June 30, 2011, we are in compliance with all covenants of the Amended Facility and our Senior Notes.

A summary of net cash provided by (used in) operating, investing, and financing activities for each of the last three fiscal years is provided below (in millions):

| | Fiscal Year Ended June 30, | | |
|--|----------------------------|------------|------------|
| | 2011 | 2010 | 2009 |
| Operating Activities | | | |
| Net income (loss) plus depreciation and amortization | \$ 50.1 | \$ (14.9) | \$ (27.1) |
| Working capital | 11.9 | 37.0 | 24.8 |
| Other (non-cash items, long-term assets and liabilities) | 1.2 | 29.2 | 24.2 |
| Total provided by operating activities | \$ 63.2 | \$ 51.3 | \$ 21.9 |
| Investing Activities | | | |
| Capital expenditures | \$ (9.1) | \$ (9.9) | \$ (22.5) |
| Change in restricted cash and investments | 0.9 | (17.3) | - |
| Purchases of marketable securities (net) | (2.1) | (11.2) | - |
| Other investing activities | 0.7 | 13.3 | 5.0 |
| Total used in investing activities | \$ (9.6) | \$ (25.1) | \$ (17.5) |
| Financing Activities | | | |
| Payments of long-term debt | (37.9) | - | - |
| Purchases and retirement of company stock | (5.4) | - | - |
| Payment of cash dividends | (5.8) | (5.8) | (23.6) |
| Other financing activities | - | (0.2) | (1.4) |
| Total provided by (used in) financing activities | \$ (49.1) | \$ (6.0) | \$ (25.0) |

Operating Activities

In fiscal 2011, cash of \$63.2 million was generated by operating activities, an increase of \$11.9 million over fiscal 2010. This occurred mostly due to the \$88.9 million increase in sales, and operating efficiencies. This was partly offset by a \$25.1 million year-over-year decrease in cash generated from changes in working capital (defined below), which were driven by the increase in inventory levels during fiscal 2011 to support improved business conditions compared to the significant decrease in inventory levels which occurred in fiscal 2010. Working capital consists of accounts receivable, inventories, prepaid and other current assets, less customer deposits, payables, accrued expenses, and other current liabilities.

Investing Activities

In fiscal 2011, \$9.6 million of cash was used in investing activities, which is \$15.5 million less cash used than in fiscal 2010. This was due primarily to a fiscal 2010 transfer of \$17.3 million into two restricted cash accounts, and a fiscal 2010 \$11.2 million purchase of marketable securities. These were partly offset by a fiscal year 2011 decrease in the proceeds from sales of property, plant and equipment (primarily retail real estate) of \$10.0 million. Capital

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spending was \$9.1 million in fiscal 2011 versus \$9.9 million in fiscal 2010 and was used to support our design center development and renovation, expansion of our upholstery operations in Mexico, and our investment in our business systems. We anticipate that cash from operations will be sufficient to fund future capital expenditures, business conditions permitting.

Financing Activities

In fiscal 2011, \$49.1 million was used in financing activities, which is \$43.1 million more cash than used in fiscal 2010. This was mostly due to \$34.6 million in Senior Note repurchases and \$5.4 million of stock repurchases settled in fiscal 2011. We paid dividends of \$0.05 per common share each quarter in fiscal 2011 and fiscal 2010. On April 11, 2011, we declared dividends of \$0.07 per common share, payable on July 25, 2011. We expect to continue to declare quarterly dividends for the foreseeable future.

As of June 30, 2011, our outstanding debt totaled \$165.0 million, the current and long-term portions of which amounted to less than \$0.1 million and \$165.0 million, respectively. The aggregate scheduled maturities of long-term debt for each of the next five fiscal years are less than \$0.1 million in each of fiscal 2012, 2013, 2014 and 2015 and \$164.8 million in fiscal 2016.

The following table summarizes, as of June 30, 2011, the timing of cash payments related to our outstanding contractual obligations (in thousands):

| | Total | Less than 1 Year | 1-3 Years | 4-5 Years | More than 5 Years |
|-------------------------------|------------|------------------------|--------------|--------------|-------------------------|
| Long-term debt obligations: | | | | | |
| Debt maturities | \$ 165,032 | \$ 19 | \$ 22 | \$ 164,845 | \$ 146 |
| Contractual interest | 40,053 | 8,895 | 17,790 | 13,344 | 24 |
| Operating lease obligations | 203,519 | 33,094 | 49,984 | 35,787 | 84,654 |
| Letters of credit | 721 | 721 | - | - | - |
| Purchase obligations (1) | - | - | - | - | - |
| Other long-term liabilities | 233 | 2 | 41 | 48 | 142 |
| Total contractual obligations | \$ 409,558 | \$ 42,731 | \$ 67,837 | \$ 214,024 | \$ 84,966 |

(1) For purposes of this table, purchase obligations are defined as agreements that are enforceable and legally binding and that specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. While we are not a party to any significant long-term supply contracts or purchase commitments, we do, in the normal course of business, regularly initiate purchase orders for the procurement of (i) selected finished goods sourced from third-party suppliers, (ii) lumber, fabric, leather and other raw materials used in production, and (iii) certain outsourced services. All purchase orders are based on current needs and are fulfilled by suppliers within short time periods. At June 30, 2011, our open purchase orders with respect to such goods and services totaled approximately \$50 million.

Further discussion of our contractual obligations associated with outstanding debt and lease arrangements can be found in Notes 7 and 8, respectively, to the Consolidated Financial Statements included under Item 8 of this Annual

Report.

We believe that our cash flow from operations, together with our other available sources of liquidity, will be adequate to make all required payments of principal and interest on our debt, to permit anticipated capital expenditures, and to fund working capital and other cash requirements. As of June 30, 2011, we had working capital of \$113.9 million and a current ratio of 1.74 to 1.

In addition to using available cash to fund changes in working capital, necessary capital expenditures, acquisition activity, the repayment of debt, and the payment of dividends, the Company has been authorized by our Board of Directors to repurchase our common stock, from time to time, either directly or through agents, in the open market at prices and on terms satisfactory to us.

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

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

We may, from time to time in the ordinary course of business, provide guarantees on behalf of selected affiliated entities or become contractually obligated to perform in accordance with the terms and conditions of certain business agreements. The nature and extent of these guarantees and obligations may vary based on our underlying relationship with the benefiting party and the business purpose for which the guarantee or obligation is being provided. The only such program in place at June 30, 2011 was for our consumer credit program.

Ethan Allen Consumer Credit Program

The terms and conditions of our consumer credit program, which is financed and administered by a third-party financial institution on a non-recourse basis to Ethan Allen, are set forth in an agreement between the Company and that financial service provider (the “Program Agreement”). In February and June 2010, the Company modified the Program Agreement to comply with recent changes in laws and made certain other changes to fees payable to the service provider. Any independent retailer choosing to participate in the consumer credit program is required to enter into a separate agreement with that same third-party financial institution which sets forth the terms and conditions under which the retailer is to perform in connection with its offering of consumer credit to its customers (the “Retailer Agreement”). We have obligated ourselves on behalf of any independent retailer choosing to participate in our consumer credit program by agreeing, in the event of default, breach, or failure of the independent retailer to perform under such Retailer Agreement, to take on certain responsibilities of the independent retailer, including, but not limited to, delivery of goods and reimbursement of customer deposits. Customer receivables originated by independent retailers remain non-recourse to Ethan Allen. Our obligation remains in effect for the term of the Program Agreement that expires in July 2014. While the maximum potential amount of future payments (undiscounted) that we could be required to make under this obligation is indeterminable, recourse provisions exist that would enable us to recover, from the independent retailer, any amount paid or incurred by us related to our performance. Based on the underlying creditworthiness of our independent retailers, including their historical ability to satisfactorily perform in connection with the terms of our consumer credit program, we believe this obligation will expire without requiring funding by us. To ensure funding for delivery of products sold, the terms of this agreement also contain a right for the credit card issuer to demand from the Company collateral of up to \$12 million if the Company does not meet certain covenants. As of June 30, 2011, the Company had established a restricted cash and investment collateral account of \$6 million to satisfy the current requirement under this demand.

Product Warranties

Our products, including our case goods, upholstery and home accents, generally carry explicit product warranties that extend from three to seven years and are provided based on terms that are generally accepted in the industry. All of our domestic independent retailers are required to enter into, and perform in accordance with the terms and conditions of, a warranty service agreement. We record provisions for estimated warranty and other related costs at time of sale based on historical warranty loss experience and make periodic adjustments to those provisions to reflect actual experience. On rare 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 our historical experience. We provide for such warranty issues as they become known and are deemed to be both probable and estimable. It is reasonably possible that, from time to time, additional warranty and other related claims could arise from disputes or other matters beyond the scope of our historical experience. As of June 30, 2011,

the Company's product warranty liability totaled \$0.8 million.

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Impact of Inflation

We believe inflation had an impact on our business the last three fiscal years but we have generally been able to create operational efficiencies, seek lower cost alternatives, or raise selling prices in order to offset increases in product and operating costs. It is possible in the future that we will not be successful in our efforts to offset the impacts from inflation.

Business Outlook

Increases in year-over-year net sales, orders, and backlogs for both business segments, and four consecutive quarters of profitability are indicators that the overall business climate for the Company has improved. While some of the economic factors we feel are important to our customer base including housing values, housing turnover, and home mortgage and other consumer credit availability have not improved meaningfully, other macro-economic metrics such as equity markets performance and job security have shown some improvement and customers are returning to our design centers and buying our quality products. We will continue to hire for both our manufacturing and retail operations, and continue to invest in advertising in new and creative ways to drive traffic to our design centers. We remain cautiously optimistic about our long-term outlook.

As macro-economic factors change, it is possible that our costs associated with production (including raw materials and labor), distribution (including freight and fuel charges), and retail operations (including compensation and benefits, delivery and warehousing, occupancy, and advertising expenses) may increase. We may also experience production difficulties as we continue to increase capacity of our remaining manufacturing plants to match demand, and to improve efficiency in our custom case goods production. We cannot reasonably predict when, or to what extent, such events may occur or what effect, if any, such events may have on our consolidated financial condition or results of operations.

The home furnishings industry remains extremely competitive with respect to both the sourcing of products and the wholesale and retail sale of those products. Domestic manufacturers continue to face pricing pressures because of the manufacturing capabilities of other countries, particularly within Asia. In response to these pressures, a large number of U.S. furniture manufacturers have increased their overseas sourcing to retain market share. While we have also turned to overseas sourcing to remain competitive, we choose to differentiate ourselves by maintaining a substantial domestic manufacturing base. Consequently, we make and/or assemble approximately 70% of our products domestically. We continue to believe that a balanced approach to product sourcing, which includes the domestic manufacture of certain product offerings coupled with the import of other selected products, provides the greatest degree of flexibility and is the most effective approach to ensuring that acceptable levels of quality, service and value are attained.

Our retail strategy involves (i) a continued focus on providing a wide array of product solutions and superior interior design solutions, (ii) the opening of new or relocated design centers in more prominent locations, while encouraging independent retailers to do the same, and (iii) leveraging the use of technology and personal service within our retail network, and (iv) further expansion internationally. We believe this strategy provides an opportunity to grow our business.

Further discussion of the home furnishings industry has been included under Item 1 of this Annual Report.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("FASB") issued ASU 2011-05, "Presentation of Comprehensive Income". This ASU increases the prominence of items reported in other comprehensive income by

eliminating the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendment requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements.

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The amendments do not change the items that must be reported in other comprehensive income. This ASU is effective for the Company's financial statements for annual and interim periods beginning on or after December 15, 2011 (July 1, 2012 for the Company), and must be applied retrospectively.

In June 2009, FASB released additional guidance on ASC Topic 810, "Consolidation" which will revise previous guidance applicable to variable interest entities ("VIEs"). The new guidance will require ongoing assessments of whether an enterprise is the primary beneficiary of a VIE, as opposed to reconsideration only when specific events occurred, as under present rules. The new guidance will also replace the quantitative approach previously required for determining the primary beneficiary of a VIE with a qualitative approach, and changes some disclosure requirements. This revised guidance is effective for fiscal years beginning after November 15, 2009 (July 1, 2010 for the Company). The implementation of this pronouncement did not have a material impact on our consolidated financial position, results of operations or cash flows.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks relating to fluctuations in interest rates and foreign currency exchange rates.

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

For floating-rate obligations, interest rate changes do not affect the fair value of the underlying financial instrument but would impact future earnings and cash flows, assuming other factors are held constant. Conversely, for fixed-rate obligations, interest rate changes affect the fair value of the underlying financial instrument but would not impact earnings or cash flows. At June 30, 2011, we had no floating-rate debt obligations outstanding. As of that same date, our fixed-rate debt obligations consist, primarily, of the Senior Notes issued on September 27, 2005. The estimated fair value of the Senior Notes as of June 30, 2011, which is based on changes, if any, in interest rates and our creditworthiness subsequent to the date on which the debt was issued, and which has been determined using quoted market prices, was \$168 million as compared to a carrying value of \$165 million.

Foreign currency exchange risk is primarily limited to our operation of five Ethan Allen-operated retail design centers located in Canada and our plant in Mexico, as substantially all purchases of imported parts and finished goods are denominated in United States dollars. As such, gains or losses resulting from market changes in the value of foreign currencies have not had, nor are they expected to have, a material effect on our consolidated results of operations. A decrease in the value of foreign currencies (in particular Asian) relative to the United States dollar may affect the profitability of our vendors but as we employ a balanced sourcing strategy, we believe any impact would be moderated relative to peers in the industry.

Item 8. Financial Statements and Supplementary Data

Our Consolidated Financial Statements and Supplementary Data are listed under Item 15 of this Annual Report.

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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Ethan Allen Interiors Inc. and subsidiaries (the "Company") as of June 30, 2011 and 2010, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended June 30, 2011. We also have audited the Company's internal control over financial reporting as of June 30, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ethan Allen Interiors Inc. and subsidiaries as of June 30, 2011 and 2010, and the results of its operations and its cash flows for each of the years in the three-year period ended June 30, 2011, in conformity with U.S. generally accepted accounting principles. Also in our opinion, Ethan Allen Interiors, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of June 30, 2011, based on

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criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ KPMG LLP

Stamford, Connecticut
August 18, 2011

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2011 and 2010

(In thousands, except share data)

| | 2011 | 2010 |
|--|-----------|-----------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$78,519 | \$73,852 |
| Marketable Securities | 12,909 | 11,075 |
| Accounts receivable, less allowance for doubtful accounts of \$1,171 at June 30, 2011 and \$1,160 at June 30, 2010 | 15,036 | 17,105 |
| Inventories (note 4) | 141,692 | 134,040 |
| Prepaid expenses and other current assets | 20,372 | 23,620 |
| Total current assets | 268,528 | 259,692 |
| Property, plant and equipment, net (note 5) | 294,853 | 305,747 |
| Goodwill and other intangible assets (notes 3 and 6) | 45,128 | 45,128 |
| Restricted cash and investments (note 19) | 16,391 | 17,318 |
| Other assets | 3,425 | 3,892 |
| Total assets | \$628,325 | \$631,777 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current maturities of long-term debt (note 7) | \$19 | \$3,898 |
| Customer deposits | 62,649 | 52,605 |
| Accounts payable | 26,958 | 23,952 |
| Accrued compensation and benefits | 28,359 | 28,353 |
| Accrued expenses and other current liabilities | 36,631 | 36,934 |
| Total current liabilities | 154,616 | 145,742 |
| Long-term debt (note 7) | 165,013 | 199,369 |
| Other long-term liabilities | 18,975 | 19,123 |
| Deferred income taxes (note 12) | 8,034 | 9,084 |
| Total liabilities | 346,638 | 373,318 |
| Shareholders' equity (notes 9, 10, 11 and 15): | | |
| Class A common stock, par value \$0.01, 150,000,000 shares authorized, 48,350,065 shares issued at June 30, 2011 and 48,346,607 shares issued at June 30, 2010 | 484 | 483 |
| Class B common stock, par value \$0.01, 600,000 shares authorized; no shares issued and outstanding at June 30, 2011 and June 30, 2010 | - | - |
| Preferred stock, par value \$0.01, 1,055,000 shares authorized, no shares issued and outstanding at June 30, 2011 and 2010 | - | - |
| Additional paid-in capital | 359,728 | 358,722 |
| | 360,212 | 359,205 |

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| | | |
|---|------------|------------|
| Less: Treasury stock (at cost), 19,571,092 shares at June 30, 2011 and 19,414,746 shares at June 30, 2010 | (582,691) | (581,331) |
| Retained earnings | 501,908 | 479,341 |
| Accumulated other comprehensive income | 2,258 | 1,244 |
| Total shareholders' equity | 281,687 | 258,459 |
| Total liabilities and shareholders' equity | \$628,325 | \$631,777 |

See accompanying notes to consolidated financial statements.

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Consolidated Statements of Operations
For Years Ended June 30, 2011, 2010 and 2009
(In thousands, except per share data)

| | 2011 | 2010 | 2009 |
|---|-----------|-------------|-------------|
| Net Sales | \$678,960 | \$590,054 | \$674,277 |
| Cost of sales | 329,500 | 309,777 | 326,935 |
| Gross profit | 349,460 | 280,277 | 347,342 |
| Operating expenses: | | | |
| Selling | 161,609 | 142,562 | 182,800 |
| General and administrative | 154,792 | 147,013 | 170,312 |
| Goodwill impairment (note 6) | - | - | 48,400 |
| Restructuring and impairment charge (note 2) | 1,126 | 2,437 | 18,601 |
| Total operating expenses | 317,527 | 292,012 | 420,113 |
| Operating income (loss) | 31,933 | (11,735) | (72,771) |
| Interest and other miscellaneous income, net | 5,564 | 4,872 | 3,355 |
| Interest and other related financing costs (note 7) | 11,126 | 11,924 | 11,764 |
| Income (loss) before income taxes | 26,371 | (18,787) | (81,180) |
| Income tax expense (benefit) (note 12) | (2,879) | 25,529 | (28,493) |
| Net income (loss) | \$29,250 | \$(44,316) | \$(52,687) |
| Per share data (note 10): | | | |
| Net income (loss) per basic share | \$1.02 | \$(1.53) | \$(1.83) |
| Basic weighted average common shares | 28,758 | 28,982 | 28,814 |
| Net income (loss) per diluted share | \$1.01 | \$(1.53) | \$(1.83) |
| Diluted weighted average common shares | 28,966 | 28,982 | 28,814 |
| Dividends declared per common share | \$0.22 | \$0.20 | \$0.65 |

See accompanying notes to consolidated financial statements.

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years Ended June 30, 2011, 2010 and 2009

(In thousands)

| | 2011 | 2010 | 2009 |
|---|----------|------------|------------|
| Operating activities | | | |
| Net income (loss) | \$29,250 | \$(44,316) | \$(52,687) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 20,816 | 29,398 | 25,635 |
| Compensation expense related to share-based payment awards | 931 | 2,276 | 1,719 |
| Provision (benefit) for deferred income taxes | (63) | 33,789 | (32,158) |
| Goodwill impairment | - | - | 48,400 |
| Restructuring and impairment charge | - | (230) | 7,038 |
| (Gain) loss on disposal of property, plant and equipment | 325 | (1,303) | 1,001 |
| Other | (132) | 242 | 198 |
| Changes in operating assets and liabilities, net of effects of acquired businesses: | | | |
| Accounts receivable | 187 | (4,197) | (776) |
| Inventories | (5,278) | 22,863 | 31,428 |
| Prepaid and other current assets | 4,407 | (5,179) | 10,627 |
| Other assets | 295 | 304 | 1,354 |
| Customer deposits | 7,861 | 20,759 | (16,266) |
| Accounts payable | 5,595 | (836) | (3,835) |
| Accrued expenses and other current liabilities | (884) | 3,631 | 3,590 |
| Other liabilities | (148) | (5,870) | (3,335) |
| Net cash provided by operating activities | 63,162 | 51,331 | 21,933 |
| Investing activities: | | | |
| Proceeds from the disposal of property, plant and equipment | 3,196 | 13,198 | 6,384 |
| Change in restricted cash and investments | 927 | (17,318) | - |
| Capital expenditures | (9,094) | (9,922) | (22,537) |
| Acquisitions | (2,957) | (50) | (1,366) |
| Purchases of marketable securities | (9,466) | (11,364) | - |
| Sales of marketable securities | 7,319 | 200 | - |
| Other | 432 | 165 | (7) |
| Net cash used in investing activities | (9,643) | (25,091) | (17,526) |
| Financial activities: | | | |
| Payments on long-term debt | (37,887) | (42) | (41) |
| Purchases and retirements of company stock | (5,377) | - | - |
| Proceeds from the issuance of common stock | 76 | 1 | 2 |
| Payment of deferred financing costs | (137) | (199) | (1,380) |
| Payment of cash dividends | (5,754) | (5,801) | (23,617) |
| Net cash used in financing activities | (49,079) | (6,041) | (25,036) |
| Effect of exchange rate changes on cash | 227 | 693 | (787) |
| Net increase (decrease) in cash and cash equivalents | 4,667 | 20,892 | (21,416) |

| | | | |
|---|-----------|------------|-----------|
| Cash and cash equivalents – beginning of year | 73,852 | 52,960 | 74,376 |
| Cash and cash equivalents – end of year | \$78,519 | \$73,852 | \$52,960 |
| Supplemental cash flow information: | | | |
| Income taxes paid (received) | \$(8,595) |) \$(8,213 |) \$8,237 |
| Interest paid | \$10,838 | \$11,097 | \$11,098 |

See accompanying notes to consolidated financial statements.

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity
For the Years Ended June 30, 2011, 2010 and 2009
(In thousands, except share data)

| | Common Stock | Additional Paid-in Capital | Treasury Stock | Accumulated Other Compre- hensive Income | Retained Earnings | Total |
|--|-----------------|----------------------------------|-------------------|--|----------------------|-----------|
| Balance as of June 30, 2008 | 482 | 354,725 | (588,783) | 2,701 | 606,648 | 375,773 |
| Issuance of 90 common shares upon the exercise of share-based awards (notes 9 and 11) | 1 | 2 | - | - | - | 3 |
| Compensation expense associated with share-based awards(notes 9 and 11) | - | 1,719 | - | - | - | 1,719 |
| Issuance of treasury shares for 401k match | - | - | 5,563 | - | (3,431) | 2,132 |
| Dividends declared on common stock | - | - | - | - | (18,783) | (18,783) |
| Other comprehensive income (loss) (note 15) | | | | | | |
| Currency translation adjustments | - | - | - | (2,282) | - | (2,282) |
| Loss on derivatives, net-of-tax | - | - | - | 48 | - | 48 |
| Net income (loss) | - | - | - | - | (52,687) | (52,687) |
| Total comprehensive income (loss) | | | | | | (54,921) |
| Balance as of June 30, 2009 | 483 | 356,446 | (583,220) | 467 | 531,747 | 305,923 |
| Issuance of 37 common shares upon the exercise of share-based awards (notes 9 and 11) | - | - | - | - | - | - |
| Compensation expense associated with share-based awards (notes 9 and 11) | - | 2,276 | - | - | - | 2,276 |
| Purchase/retirement of 182,600 shares of company stock | - | - | (2,589) | - | - | (2,589) |
| | - | - | 4,478 | - | (2,275) | 2,203 |

| | | | | | | |
|--|--------|------------|---------------|----------|------------|------------|
| Issuance of treasury shares for 401k match | | | | | | |
| Dividends declared on common stock | - | - | - | - | (5,815) | (5,815) |
| Other comprehensive income (loss) (note 15) | | | | | | |
| Currency translation adjustments | - | - | - | 722 | - | 722 |
| Unrealized gain (loss) on investments | - | - | - | 6 | - | 6 |
| Loss on derivatives, net-of-tax | - | - | - | 49 | - | 49 |
| Net income (loss) | - | - | - | - | (44,316) | (44,316) |
| Total comprehensive income (loss) | | | | | | (43,539) |
| Balance as of June 30, 2010 | 483 | 358,722 | (581,331) | 1,244 | 479,341 | 258,459 |
| Issuance of 4,925 common shares upon the exercise of share-based awards (notes 9 and 11) | 1 | 75 | - | - | - | 76 |
| Compensation expense associated with share-based awards (notes 9 and 11) | - | 931 | - | - | - | 931 |
| Purchase/retirement of 204,286 shares of company stock | - | - | (2,787) | - | - | (2,787) |
| Issuance of treasury shares for 401k match | - | - | 1,427 | - | (345) | 1,082 |
| Dividends declared on common stock | - | - | - | - | (6,338) | (6,338) |
| Other comprehensive income (loss) (note 15) | | | | | | |
| Currency translation adjustments | - | - | - | 917 | - | 917 |
| Unrealized gain (loss) on investments | - | - | - | 14 | - | 14 |
| Loss on derivatives, net-of-tax | - | - | - | 83 | - | 83 |
| Net income (loss) | - | - | - | - | 29,250 | 29,250 |
| Total comprehensive income (loss) | | | | | | 30,264 |
| Balance at June 30, 2011 | \$ 484 | \$ 359,728 | \$ (582,691) | \$ 2,258 | \$ 501,908 | \$ 281,687 |

See accompanying notes to consolidated financial statements.

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

June 30, 2011, 2010 and 2009

(1) Summary of Significant Accounting Policies

Basis of Presentation

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

Nature of Operations

We are a leading manufacturer and retailer of quality home furnishings and accessories, offering a full complement of home decorating and design solutions. We sell our products through one of the country's largest home furnishing retail networks with a total of 287 retail design centers, of which 147 are Company-operated and 140 are independently operated. Nearly all of our Company-operated retail design centers are located in the United States, with the remaining design centers located in Canada. The majority of the independently operated design centers are also located in the United States, with the remaining design centers located throughout Asia, Canada and the Middle East. We have six manufacturing facilities, one of which includes a separate sawmill operation, located throughout the United States, and one in Mexico.

Use of Estimates

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

Cash Equivalents

Cash and short-term, highly-liquid investments with original maturities of three months or less are considered cash and cash equivalents. We invest excess cash in money market accounts, short-term commercial paper, and U.S. Treasury Bills.

Inventories

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

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Marketable Securities

The Company's investments are classified at the time of purchase as either available-for-sale or held-to-maturity, and reassessed as of each balance sheet date. Our marketable securities consist of available-for-sale securities, and are marked-to-market based on prices provided by our investment advisors, with unrealized gains and temporary unrealized losses reported as a component of other comprehensive income net of tax, until realized. When realized, the Company recognizes gains and losses on the sales of the securities on a specific identification method and includes the realized gains or losses in other income, net, in the consolidated statements of operations. The Company includes interest, dividends, and amortization of premium or discount on securities classified as available-for-sale in other income, net in the consolidated statements of operations. We also evaluate our available-for-sale securities to determine whether a decline in fair value of a security below the amortized cost basis is other than temporary. Should the decline be considered other than temporary, we write down the cost of the security and include the loss in earnings. In making this determination we consider such factors as the reason for and significance of the decline, current economic conditions, the length of time for which there has been an unrealized loss, the time to maturity, and other relevant information. Available-for-sale securities are classified as either short-term or long-term based on management's intention of when to sell the securities.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation of plant and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. Estimated useful lives of the respective assets typically range from twenty to forty years for buildings and improvements and from three to twenty years for machinery and equipment. Leasehold improvements are amortized based on the underlying lease term, or the asset's estimated useful life, whichever is shorter.

Operating Leases

We record expense for operating leases by recognizing the minimum lease payments on a straight-line basis, beginning on the date that the lessee takes possession or control of the property. A number of our operating lease agreements contain provisions for tenant improvement allowances, rent holidays, rent concessions, and/or rent escalations.

Incentive payments received from landlords are recorded as deferred lease incentives and are amortized over the underlying lease term on a straight-line basis as a reduction of rent expense. When the terms of an operating lease provide for periods of free rent, rent concessions, and/or rent escalations, we establish a deferred rent liability for the difference between the scheduled rent payment and the straight-line rent expense recognized. This deferred rent liability is also amortized over the underlying lease term on a straight-line basis as a reduction of rent expense.

Retail Design Center Acquisitions

We account for the acquisition of retail design centers and related assets with the purchase method. 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.

Goodwill and Other Intangible Assets

Our intangible assets are comprised primarily of goodwill, which represents the excess of cost over the fair value of net assets acquired, and trademarks. We determined these assets have indefinite useful lives, and are therefore not

amortized.

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Impairment of Long-Lived Assets and Goodwill

Long-lived assets are regularly evaluated as to whether events or circumstances have occurred that indicate that they may not be recoverable or that their remaining useful lives may warrant revision. Goodwill and our trade name (the Company's only other indefinite-lived intangible asset) are evaluated for impairment on an annual basis in the fourth quarter and between annual tests whenever events or circumstances indicate that the carrying value may exceed its fair value. When such events or circumstances are present for either long-lived or indefinite-lived assets, the Company determines whether the carrying value exceeds the fair value as described below.

The recoverability of long-lived assets are evaluated for impairment 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 cash inflows and outflows several years into the future with assumptions considered at the time of the impairment test.

To evaluate goodwill, the Company determines the current fair value of the Reporting Units using a combination of "Market" and "Income" approaches. In the Market approach, the "Guideline Company" method is used, which focuses on comparing the Company's risk profile and growth prospects to reasonably similar publicly traded companies. Key assumptions used for the Guideline Company method are total invested capital ("TIC") multiples for revenues and operating cash flows, as well as consideration of control premiums. The TIC multiples are determined based on public furniture companies within our peer group, and if appropriate, recent comparable transactions are also considered. Control premiums are determined using recent comparable transactions in the open market. Under the Income approach, a discounted cash flow method is used, which includes a terminal value, and is based on external analyst financial projection estimates, as well as internal financial projection estimates prepared by management. The long-term terminal growth rate assumptions reflect our current long-term view of the market in which we compete. Discount rates use the weighted average cost of capital for companies within our peer group, adjusted for specific company risk premium factors.

The fair value of our trade name is valued using the relief-from-royalty method. Significant factors used in trade name valuation are rates for royalties, future growth, and a discount factor. Royalty rates are determined using an average of recent comparable values. Future growth rates are based on the Company's perception of the long-term values in the market in which we compete, and the discount rate is determined using the weighted average cost of capital for companies within our peer group, adjusted for specific company risk premium factors.

Financial Instruments

Due to their short-term nature, the carrying value of our cash and cash equivalents, receivables and payables, short-term debt and customer deposit liabilities approximates fair value. The estimated fair value of our long-term debt, which is based on changes, if any, in interest rates and our creditworthiness subsequent to the date on which the debt was issued, and which has been determined using quoted market prices, totaled \$168.4 million at June 30, 2011 and \$191.3 million at June 30, 2010, as compared to a carrying value on those dates of \$164.8 million and \$199.2 million, respectively.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards.

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Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

A valuation allowance must be established for deferred tax assets when it is more likely than not that the assets will not be realized. The Company has determined that valuation allowances are needed for all of its deferred tax assets and has recorded valuation allowances accordingly, which resulted in non-cash charges to earnings during fiscal 2010 and 2009. As of June 30, 2011, the Company remains in a three year cumulative loss and the full valuation allowance remains in place, although at a reduced level after recording the impact of the changes in tax accounting methods made in the quarter ended December 31, 2010.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. All of the unrecognized tax benefits, if recognized, would be recorded as a benefit to income tax expense.

The liability associated with an unrecognized tax benefit is classified as a long-term liability except for the amount for which a cash payment is expected to be made or tax positions settled within one year. We recognize interest and penalties related to income tax matters as a component of income tax expense.

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. As such, revenue recognition occurs upon the shipment of goods to independent retailers or, in the case of Ethan Allen-operated retail design centers, upon delivery to the customer.

During the third quarter of fiscal 2011, as a result of the growth of our independent retailer in China, and at their request, a separate section of an existing Ethan Allen warehouse was established by us to hold sold product on their behalf. At March 31, 2011, \$5.2 million of sold product was held in this warehouse, and recorded as revenue during that third quarter. We delivered that product during the fourth quarter. At June 30, 2011, \$0.7 million of sold product was held in the warehouse, and is part of our net sales for the fourth quarter of fiscal 2011. Under this arrangement, after a fixed commitment by the customer is made, the Company recognizes revenue when the sales price is fixed, collectability is reasonably assured, title and risk of ownership has passed to the customer, no specific performance obligations remain, and a fixed schedule of delivery is agreed upon and in place. The substantial business purpose for the customer request was to provide additional warehouse space to support their business expansion plans and to reduce delivery lead times.

Shipping and Handling Costs

Our policy is to sell our products at the same delivered cost to all retailers nationwide, regardless of shipping point. Costs incurred to deliver finished goods to the consumer are expensed and recorded in selling, general and administrative expenses. Shipping and handling costs amounted to \$57.5 million, \$56.6 million, and \$68.2 million for fiscal years 2011, 2010 and 2009, respectively.

Advertising Costs

Advertising costs are expensed when first aired or distributed. Our total advertising costs incurred in fiscal years 2011, 2010 and 2009, amounted to \$26.2 million, \$20.8 million, and \$25.1 million, respectively. These amounts are

presented net of proceeds received by us under our agreement with the third-party financial institution

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responsible for administering our consumer finance programs. Prepaid advertising costs at June 30, 2011 and 2010 totaled \$1.1 million and \$0.6 million, respectively.

Earnings Per Share

We compute basic earnings per share by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated similarly, except that the weighted average outstanding shares are adjusted to include the effects of converting all potentially dilutive share-based awards issued under our employee stock plans (see Notes 10 and 11). Certain unvested share-based payment awards are participating securities because they contain rights to receive non-forfeitable dividends (if paid), and are included in the two-class method of computing earnings per share.

Share-Based Compensation

We estimate, as of the date of grant, the fair value of stock options awarded using the Black-Scholes option-pricing model. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs, including anticipated changes in the underlying stock price (i.e. expected volatility) and option exercise activity (i.e. expected life). Expected volatility is based on the historical volatility of our stock and other contributing factors. The expected life of options granted, which represents the period of time that the options are expected to be outstanding, is based, primarily, on historical data.

Share-based compensation expense is included in the Consolidated Statements of Operations within selling, general and administrative expenses. Tax benefits associated with our share-based compensation arrangements are included in the Consolidated Statements of Operations within income tax expense.

All shares of our common stock received in connection with the exercise of share-based awards have been recorded as treasury stock and result in a reduction in shareholders' equity.

Foreign Currency Translation

The functional currency of each Company-operated foreign retail location is the respective local currency. Assets and liabilities are translated into United States dollars using the current period-end exchange rate and income and expense amounts are translated using the average exchange rate for the period in which the transaction occurred. Resulting translation adjustments are reported as a component of accumulated other comprehensive income within shareholders' equity.

Recent Accounting Pronouncements

In June 2009, the FASB released additional guidance on ASC Topic 810, "Consolidation" (SFAS No. 167) which will revise previous guidance applicable to variable interest entities ("VIEs"). The new guidance will require ongoing assessments of whether an enterprise is the primary beneficiary of a VIE, as opposed to reconsideration only when specific events occurred, as under present rules. The new guidance will also replace the quantitative approach previously required for determining the primary beneficiary of a VIE with a qualitative approach, and changes some disclosure requirements. This revised guidance is effective for fiscal years beginning after November 15, 2009 (July 1, 2010 for the Company). The implementation of this pronouncement did not have a material impact on our consolidated financial position, results of operations, or cash flows.

(2) Restructuring and Impairment Charges

During fiscal 2009 and 2008, we announced and executed plans to consolidate our operations as part of an overall strategy to maximize production efficiencies and maintain our competitive advantage. These restructuring activities are now complete. There is a remaining liability at June 30, 2011 of \$2.5 million for non-cancellable lease obligations with expirations ranging from less than one to 22 years. Changes in the estimated future costs of these

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obligations are included as restructuring and impairment charges in the Statement of Operations, and the Company's restructuring reserve is classified with accrued expenses and other current liabilities in the Consolidated Balance Sheets.

(3) Business Acquisitions

The Company's business acquisition practice with respect to retail design centers of independent retailers is to selectively acquire, at market value, design centers located in markets of strategic interest to the Company. The Company does not actively pursue acquisitions, but is sometimes approached by independent retailers who are retiring. Acquisitions are subject to a contractual holdback, or reconciliation, period, during which the parties to the transaction may agree to certain normal and customary purchase accounting adjustments. Goodwill associated with our acquisitions represents the premium paid to the seller related to the acquired business (i.e. market presence). See Note 6 for further discussion of our goodwill and other intangible assets.

A summary of the acquisitions from our independent retailers for each of the last three fiscal years is provided below (dollars in thousands):

| | Fiscal Year Ended June 30, | | |
|---|----------------------------|----------------|----------------|
| Business segment | 2011 Retail | 2010 Retail | 2009 Retail |
| Number of transactions | 5 | 1 | 4 |
| Total design centers acquired | 6 | 1 | 4 |
| Consideration given: | | | |
| Cash paid | \$ 2,957 | \$ 50 | \$ 1,174 |
| Outstanding accounts and notes receivable settled | 1,055 | 178 | 667 |
| Total consideration given | 4,012 | 228 | 1,841 |
| Assets acquired (liabilities assumed): | | | |
| Inventory | 2,373 | 384 | 1,682 |
| PP&E and other assets | 3,922 | 99 | 242 |
| Customer deposits | (2,183) | (155) | (660) |
| A/P and other liabilities | (100) | (100) | (186) |
| Goodwill | \$ - | \$ - | \$ 763 |

(4) Inventories

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

| | 2011 | 2010 |
|-----------------|------------|------------|
| Finished goods | \$ 108,438 | \$ 104,782 |
| Work in process | 8,868 | 8,421 |
| Raw materials | 24,386 | 20,837 |
| | \$ 141,692 | \$ 134,040 |

Inventories are presented net of a related valuation allowance of \$1.7 million at June 30, 2011 and \$2.1 million at June 30, 2010.

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(5) Property, Plant and Equipment

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

| | 2011 | 2010 |
|---|------------|------------|
| Land and improvements | \$ 86,779 | \$ 88,174 |
| Buildings and improvements | 378,099 | 373,452 |
| Machinery and equipment | 108,170 | 107,438 |
| | 573,048 | 569,064 |
| Less: accumulated depreciation and amortization | (278,195) | (263,317) |
| | \$ 294,853 | \$ 305,747 |

(6) Goodwill and Other Intangible Assets

At both June 30, 2011 and 2010, we had \$25.4 million of goodwill, and \$19.7 million of other indefinite-lived intangible assets consisting of Ethan Allen trade names. These assets are reported in the Company's wholesale segment for both periods.

The Company performed its annual impairment test in the fourth fiscal quarter for the fiscal years ending in 2011, 2010 and 2009. The Company recorded an impairment charge for \$48.4 million in 2009 for the retail segment. There was no impairment in either 2011 or 2010. The fair values of the wholesale reporting unit and trade name exceeded their carrying value by a substantial margin. To calculate fair value of these assets, management relies on estimates and assumptions which by their nature have varying degrees of uncertainty. Wherever possible, management therefore looks for third party transactions to provide the best possible support for the assumptions incorporated. Management considers several factors to be significant when estimating fair value including expected financial outlook of the business, changes in the Company's stock price, the impact of changing market conditions on financial performance and expected future cash flows, and other factors. Deterioration in any of these factors may result in a lower fair value assessment, which could lead to impairment of the long-lived assets and goodwill of the Company.

(7) Borrowings

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

| | 2011 | 2010 |
|------------------------------|------------|------------|
| 5.375% Senior Notes due 2015 | \$ 164,821 | \$ 199,158 |
| Industrial revenue bonds | - | 3,855 |
| Other debt obligations | 211 | 254 |
| Total debt | 165,032 | 203,267 |
| Less: current maturities | 19 | 3,898 |
| Total long-term debt | \$ 165,013 | \$ 199,369 |

Senior Notes

On September 27, 2005, we completed a private offering of \$200.0 million of ten-year senior unsecured notes due 2015 (the "Senior Notes"). The Senior Notes were offered by Global and have an annual coupon rate of 5.375% with interest payable semi-annually in arrears on April 1 and October 1 of each year. Proceeds received in connection with the issuance of the Senior Notes, net of a related discount of \$1.6 million, totaled \$198.4 million. We used the net proceeds from the offering to expand our retail network, invest in our manufacturing and logistics operations, and for

other general corporate purposes. As of June 30, 2011, outstanding borrowings related to this transaction have been included in the Consolidated Balance Sheets within long-term debt. The discount on the Senior Notes is being amortized to interest expense over the life of the related debt as is debt issuance costs of \$2.0 million primarily for banking, legal, accounting, rating agency, and printing services and \$0.8 million of losses on settled forward contracts entered in conjunction with this debt issuance. During the current fiscal year, the Company repurchased \$34.6 million of the Senior Notes in several unsolicited transactions.

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The Senior Notes may be redeemed in whole or in part, at Global's option at any time at the greater of (i) 100% of the principal amount of the notes to be redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the Senior Notes to be redeemed, discounted to the date of redemption on a semi-annual basis at the applicable treasury rate plus 20 basis points, plus, in each case, accrued and unpaid interest to the redemption date. In the event of default, the trustee or the holders of 25% of the outstanding principal amount of the Senior Notes may accelerate payment of principal, premium, if any, and accrued and unpaid interest. Events of default include failure to pay in accordance with the terms of the indenture, including failure, under certain circumstances, to pay indebtedness other than the Senior Notes. As of June 30, 2011, we are in compliance with the terms and conditions and all covenants of the Senior Notes.

Revolving Credit Facility

In March 2011, the Company amended its \$60 million senior secured, asset-based, revolving credit facility which was due to expire in fiscal 2012. As amended, this facility (the "Amended Facility") provides revolving credit financing of up to \$50 million, subject to borrowing base availability, and includes a right for the Company to increase the total facility to \$100 million either with existing or additional lenders subject to certain conditions. The Amended Facility was extended by approximately four years to March 25, 2016, or to June 26, 2015 if the Company's Senior Notes bonds have not been refinanced. At the Company's option, revolving loans under the Amended Facility bear interest at an annual rate of either:

- (a) London Interbank Offered rate ("LIBOR") plus 2.0% to 2.5%, based on the average availability, or
- (b) The higher of (i) a prime rate, (ii) the federal funds effective rate plus 0.50%, or (iii) LIBOR plus 1.0% plus, in each case, an additional 1.0% to 1.5%, based on average availability.

The Company pays a commitment fee of 0.25% per annum on the unused portion of the Amended Facility and participation fees on issued letters of credit at an annual rate of 1.0% to 2.5%, based on the average availability and the letter of credit type. If the average monthly availability is less than the greater of (i) 12.5% of the aggregate commitment and (ii) \$6.3 million, the Company's fixed charge coverage ratio may not be less than 1 to 1 for any period of four consecutive fiscal quarters. Certain payments are restricted if the availability of the collateral supporting the facility falls below \$10 million or 20% of the facility size.

The Amended Facility is secured by all property owned, leased or operated by the Company in the United States excluding any real property owned by the Company and contains customary covenants which may limit the Company's ability to incur debt; engage in mergers and consolidations; make restricted payments (including dividends); sell certain assets; and make investments. At June 30, 2011, we had no revolving loans and \$0.7 million of standby and trade letters of credit outstanding under the Amended Facility. Remaining availability under the facility totaled \$49.3 million subject to limitations set forth in the agreement and as a result, the coverage charge ratio, and other restricted payment limitations did not apply. As of June 30, 2011, we are in compliance with all the covenants of the Amended Facility.

Other Borrowings

In June 2011, \$3.9 million of our outstanding debt, related to industrial revenue bonds that were issued to finance capital improvements at the Ethan Allen Hotel and Conference Center, was repaid.

For fiscal years ended June 30, 2011, 2010 and 2009, the weighted-average interest rates applicable under our outstanding debt obligations for each year was approximately 5.5%. Aggregate scheduled maturities of our debt obligations for each of the five fiscal years subsequent to June 30, 2011, and thereafter are as follows (in thousands):

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Fiscal Year Ended June 30

| | | |
|-------------------------------|----|---------|
| 2012 | \$ | 19 |
| 2013 | | 11 |
| 2014 | | 11 |
| 2015 | | 12 |
| 2016 | | 164,833 |
| Subsequent to 2016 | | 146 |
| Total scheduled debt payments | \$ | 165,032 |

(8) Leases

We lease real property and equipment under various operating lease agreements expiring through 2033. Leases covering retail design center locations and equipment may require, in addition to stated minimums, contingent rentals based on retail sales or equipment usage. Generally, the leases provide for renewal for various periods at stipulated rates. Future minimum lease payments under non-cancelable operating leases for each of the five fiscal years subsequent to June 30, 2011, and thereafter are as follows (in thousands):

Fiscal Year Ended June 30

| | | |
|------------------------------|----|---------|
| 2012 | \$ | 33,094 |
| 2013 | | 28,053 |
| 2014 | | 21,931 |
| 2015 | | 19,500 |
| 2016 | | 16,287 |
| Subsequent to 2016 | | 84,654 |
| Total minimum lease payments | \$ | 203,519 |

(The above amounts will be partially offset in the aggregate by minimum future rentals from subleases of \$9.1 million, which are due to be received as follows: \$1.8 million in 2012; \$1.8 million in 2013; \$1.6 million in 2014; \$1.4 million in 2015; \$0.6 million in 2016; and \$1.9 million subsequent to 2016.

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

| | 2011 | 2010 | 2009 |
|--|-----------|-----------|-----------|
| Basic rentals under operating leases | \$ 30,834 | \$ 33,334 | \$ 38,522 |
| Contingent rentals under operating lease | 135 | 121 | 182 |
| | 30,969 | 33,455 | 38,704 |
| Less: sublease rent | (1,621) | (957) | (1,256) |
| Total rent expense | \$ 29,348 | \$ 32,498 | \$ 37,448 |

As of June 30, 2011 and 2010, deferred rent credits totaling \$11.9 million and \$11.8 million, respectively, and deferred lease incentives totaling \$2.7 million and \$2.4 million, respectively, are reflected in the Consolidated Balance Sheets. These amounts are amortized over the respective underlying lease terms on a straight-line basis as a reduction of rent expense.

(9) Shareholders' Equity

Our authorized capital stock consists of (a) 150,000,000 shares of Class A Common Stock, par value \$.01 per share, (b) 600,000 shares of Class B Common Stock, par value \$.01 per share, and (c) 1,055,000 shares of Preferred Stock, par value \$.01 per share, of which (i) 30,000 shares have been designated Series A Redeemable Convertible Preferred Stock, (ii) 30,000 shares have been designated Series B Redeemable Convertible Preferred Stock, (iii) 155,010 shares have been designated as Series C Junior Participating Preferred Stock, and (iv) the remaining 839,990 shares may be designated by the Board of Directors with such rights and preferences as they determine (all such preferred stock, collectively, the "Preferred Stock"). Shares of Class B Common Stock are convertible to shares of our Common Stock upon the occurrence of certain events or other specified conditions being met. As of June 30, 2011 and 2010, there were no shares of Preferred Stock or Class B Common Stock issued or outstanding.

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Share Repurchase Program

On November 21, 2002, the Company's Board of Directors approved a share repurchase program authorizing us to repurchase up to 2.0 million shares of our common stock, from time to time, either directly or through agents, in the open market at prices and on terms satisfactory to us. Subsequent to that date, the Board of Directors increased the then remaining share repurchase authorization on seven separate occasions the last of which was on November 13, 2007. As of June 30, 2011 we had a remaining Board authorization to repurchase 1.2 million shares.

During the fourth quarter of fiscal 2010, we resumed our stock repurchase activity due to our ability to generate excess cash and the favorable stock price. Between 2011 and 2009, we repurchased and/or retired the following shares of our common stock:

| | 2011 | 2010 (1) | 2009 |
|----------------------------------|--------------|--------------|------|
| Common shares repurchased | 204,286 | 182,600 | - |
| Cost to repurchase common shares | \$ 2,787,777 | \$ 2,588,519 | - |
| Average price per share | \$ 13.65 | \$ 14.18 | - |

(1) The cost to repurchase shares in fiscal 2010 all had a June 2010 trade date and a July 2010 settlement date.

For the fiscal years presented above, we funded our purchases of treasury stock with existing cash on hand and cash generated through current period operations. All of our common stock repurchases and retirements are recorded as treasury stock and result in a reduction of shareholders' equity.

Stockholder Rights Plan

On May 20, 1996, the Board of Directors adopted a Stockholder Rights Plan (the "Rights Plan") and declared a dividend of one right for each share of our common stock outstanding as of July 10, 1996. Under the Rights Plan, each share of our common stock issued after July 10, 1996 is accompanied by one right (or such other number of rights as results from the adjustments for stock splits and other events described below). Each right entitles its holder, under certain circumstances, to purchase one one-hundredth of a share of our Series C Junior Participating Preferred Stock at a purchase price of \$125. The rights may not be exercised until 10 days after a person or group acquires 15% or more of our common stock, or 15 days after the commencement or the announcement of the intent to commence a tender offer, which, if consummated, would result in acquisition by a person or group of 15% or more of our common stock. Until then, separate rights certificates will not be issued and the rights will not be traded separately from shares of our common stock.

If the rights become exercisable, then, upon exercise of a right, our stockholders (other than the acquirer) would have the right to receive, in lieu of our Series C Junior Participating Preferred Stock, a number of shares of our common stock (or a number of shares of the common stock of the acquirer, if we are acquired, or other assets under various circumstances) having a market value equal to two times the purchase price. Under the Rights Plan, as amended by the Board of Directors on May 31, 2011, the rights will expire on November 30, 2014 or May 31, 2012 if the May 31, 2011 amendment is not ratified by the shareholders at the annual shareholders meeting scheduled to be held in November 2011. The redemption price is \$0.01 per right. The Board of Directors may redeem the rights at its option any time prior to the time when the rights become exercisable.

The Rights Plan provides for adjustment to the number of rights which accompanies each share of our common stock (whether then outstanding or thereafter issued) upon the occurrence of various events after July 10, 1996, including stock splits. We effected a 2-for-1 stock split on September 3, 1997 and a 3-for-2 stock split on May 24, 1999.

Accordingly, at June 30, 2011, each share of our common stock was accompanied by one-third of one right.

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(10) Earnings per Share

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

| | 2011 | 2010 | 2009 |
|---|--------|--------|--------|
| Weighted average common shares outstanding for basic calculation | 28,758 | 28,982 | 28,814 |
| Effect of dilutive stock options and share based awards | 208 | - | - |
| Weighted average common shares outstanding adjusted for diluted calculation | 28,966 | 28,982 | 28,814 |

Certain restricted stock awards and the potential exercise of certain stock options were excluded from the respective diluted earnings per share calculation because their impact is anti-dilutive. In 2011, 2010 and 2009, stock options and share based awards of 1,657,932, 1,802,284 and 2,102,121, respectively, have been excluded.

(11) Share-Based Compensation

For the twelve months ended June 30, 2011, 2010, and 2009, share-based compensation expense totaled \$0.9 million, \$2.3 million, and \$1.7 million respectively. These amounts have been included in the Consolidated Statements of Operations within selling, general and administrative expenses. During the twelve months ended June 30, 2011, 2010, and 2009, we recognized related tax benefits associated with our share-based compensation arrangements totaling \$0.3 million, \$0.8 million and \$0.6 million, respectively (before valuation allowances). Such amounts have been included in the Consolidated Statements of Operations within income tax expense.

We estimate, as of the date of grant, the fair value of stock options awarded using the Black-Scholes option-pricing model. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs, including anticipated changes in the underlying stock price (i.e. expected volatility) and option exercise activity (i.e. expected life). Expected volatility is based on the historical volatility of our stock. The risk-free rate of return is based on the U.S. Treasury bill rate for the term closest matching the expected life of the grant. The dividend yield is based on the annualized dividend rate at the grant date relative to the grant date stock price. The expected life of options granted, which represents the period of time that the options are expected to be outstanding, is based, primarily, on historical data. The weighted average assumptions used for fiscal years ended June 30 are noted in the following table:

| | 2011 | 2010 | 2009 |
|--------------------------|-----------|-----------|-----------|
| Volatility | 59.5% | 43.7% | 34.4% |
| Risk-free rate of return | 0.61% | 3.05% | 3.21% |
| Dividend yield | 1.16% | 1.67% | 5.11% |
| Expected average life | 1.8 years | 7.8 years | 7.4 years |

At June 30, 2011, we had 925,856 shares of common stock available for future issuance pursuant to the 1992 Stock Option Plan (the "Plan"). The maximum number of shares of common stock reserved for issuance under the Plan is 6,487,867 shares. Following is a description of grants made under the Plan.

Stock Option Awards

The Plan provides for the grant of non-compensatory stock options to eligible employees and non-employee directors. Stock options granted under the Plan are non-qualified under Section 422 of the Internal Revenue code and allow for the purchase of shares of our common stock. The Plan also provides for the issuance of stock

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appreciation rights ("SARs") on issued options, however, no SARs have been issued as of June 30, 2011. The awarding of such options is determined by the Compensation Committee of the Board of Directors after consideration of recommendations proposed by the Chief Executive Officer. Option awards are generally granted with an exercise price equal to the market price of our common stock at the date of grant, vest ratably over a specified service period (4 years for awards to employees; 2 years for awards to independent directors), and have a contractual term of 10 years.

All options were issued at the closing stock price on each grant date, and have a contractual term of 10 years. A summary of stock option activity occurring during the fiscal year ended June 30, 2011 is presented below:

| Options | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (yrs) | Aggregate Intrinsic Value |
|------------------------------|------------|---------------------------------------|---|------------------------------|
| Outstanding - June 30, 2010 | 2,113,284 | \$ 29.79 | | |
| Granted | 20,000 | 31.41 | | |
| Exercised | (4,925) | 15.37 | | |
| Canceled (forfeited/expired) | (122,172) | 25.26 | | |
| Outstanding - June 30, 2011 | 2,006,187 | 29.91 | 3.6 | \$ 2,388,998 |
| Exercisable - June 30, 2011 | 1,821,957 | \$ 31.40 | 3.1 | \$ 1,232,783 |

The weighted average grant-date fair value of options granted during fiscal 2011, 2010, and 2009 was \$1.70, \$5.17 and \$4.58 respectively. The total intrinsic value of options exercised during 2011, 2010 and 2009 was \$0.0 million, \$0.0 million, and \$5.7 million, respectively. As of June 30, 2011, there was \$0.6 million of total unrecognized compensation cost related to nonvested options granted under the Plan. That cost is expected to be recognized over a weighted average period of 2.1 years. A summary of the nonvested shares as of June 30, 2011 and changes during the year then ended is presented below:

| Options | Shares | Weighted Average Grant Date Fair Value |
|------------------------------|------------|--|
| Nonvested June 30, 2010 | 294,659 | \$ 4.32 |
| Granted | 20,000 | 1.70 |
| Vested | (102,992) | 3.81 |
| Canceled (forfeited/expired) | (27,437) | 3.97 |
| Nonvested at June 30, 2011 | 184,230 | \$ 4.41 |

Restricted Stock Awards

In connection with Mr. Kathwari's October 10, 2007 employment agreement, he received on July 1, 2008 an award of 20,000 shares of restricted stock with vesting based on the performance of the Company's stock price during the three year periods subsequent to the award date as compared to the Standard and Poor's 500 index. The measurement period ended on June 30, 2011, vesting was not achieved, and 20,000 shares were forfeited.

On July 20, 2010, in recognition of his extraordinary efforts during these challenging times for the Company, the Compensation Committee of the Company's board of directors awarded M. Farooq Kathwari, our President and Chief Executive Officer, 11,000 service-based restricted shares which vest in two equal annual installments on the grant date

anniversary.

A summary of nonvested restricted share activity occurring during the fiscal year ended June 30, 2011 is presented below.

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| Restricted Awards | Shares | Weighted Average Grant-Date Fair Value |
|------------------------------|-----------|---|
| Nonvested - June 30, 2010 | 97,700 | \$ 14.07 |
| Granted | 13,000 | 13.83 |
| Vested | (21,057) | 17.22 |
| Canceled (forfeited/expired) | (22,468) | 14.03 |
| Nonvested - June 30, 2011 | 67,175 | \$ 13.05 |

As of June 30, 2011, there was \$0.6 million of total unrecognized compensation cost related to restricted shares granted under the Plan. That cost is expected to be recognized over a weighted average period of 1.4 years. The total fair value of restricted shares vested during the fiscal years ending June 30, 2011 and 2010 was \$0.4 million and \$0.4 million respectively.

Stock Unit Awards

In connection with previous employment agreements, Mr. Kathwari was deemed to have earned 126,000 stock units. In the event of the termination of his employment, regardless of the reason for termination, Mr. Kathwari will receive shares of common stock equal to the number of stock units earned.

(12) Income Taxes

Total income taxes were allocated as follows for the fiscal years ended June 30 (in thousands):

| | 2011 | 2010 | 2009 |
|-------------------------------|-------------|-----------|--------------|
| Income (loss) from operations | \$ (2,879) | \$ 25,529 | \$ (28,493) |
| Shareholders' equity | - | - | - |
| Total | \$ (2,879) | \$ 25,529 | \$ (28,493) |

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

| | 2011 | 2010 | 2009 |
|--------------------|-------------|--------------|--------------|
| Current: | | | |
| Federal | \$ (4,428) | \$ (11,497) | \$ 2,657 |
| State | 1,505 | 3,106 | 975 |
| Foreign | 107 | 131 | 33 |
| Total current | (2,816) | (8,260) | 3,665 |
| Deferred: | | | |
| Federal | (1,432) | 33,290 | (30,200) |
| State | 1,369 | 490 | (1,958) |
| Foreign | - | 9 | - |
| Total deferred | (63) | 33,789 | (32,158) |
| Income tax expense | \$ (2,879) | \$ 25,529 | \$ (28,493) |

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

| | 2011 | | | 2010 | | | 2009 | | |
|---|-------------|----------|---|-------------|----------|---|--------------|--------|---|
| Expected income tax expense (benefit) | \$ 9,228 | 35.0 | % | \$ (6,575) | 35.0 | % | \$ (28,413) | 35.0 | % |
| State income taxes (benefit), net of federal income tax | 750 | 2.84 | % | (717) | 3.8 | % | (3,237) | 4.0 | % |
| Valuation allowance | (12,672) | (48.06) | % | 34,139 | (181.7) | % | 2,088 | (2.6) | % |
| Goodwill impairment | - | 0.0 | % | - | 0.0 | % | 1,402 | (1.7) | % |
| Section 199 Qualified Production Activities deduction | (705) | (2.67) | % | - | 0.0 | % | - | 0.0 | % |
| Unrecognized tax benefit | 490 | 1.86 | % | (2,232) | 11.9 | % | 47 | 0.0 | % |
| Other, net | 30 | 0.11 | % | 914 | (4.9) | % | (380) | 0.4 | % |
| Actual income tax expense (benefit) | \$ (2,879) | (10.92) | % | \$ 25,529 | (135.9) | % | \$ (28,493) | 35.1 | % |

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

| | 2011 | 2010 | 2009 |
|---|-----------|-----------|--------------|
| Deferred tax expense (benefit): | | | |
| Commissions | \$ 750 | \$ 2,732 | \$ (3,045) |
| Restructuring costs | 267 | 4,551 | (4,469) |
| Acquired goodwill | 1,189 | 475 | (16,191) |
| Amortization and depreciation | 8,353 | (4,813) | (7,126) |
| Federal, foreign and state net operating losses | 1,241 | (1,896) | (2,870) |
| Other | 809 | (1,399) | (545) |
| Total deferred tax benefit | 12,609 | (350) | (34,246) |
| Less: Valuation allowance | (12,672) | 34,139 | 2,088 |
| Net deferred tax expense (benefit) | \$ (63) | \$ 33,789 | \$ (32,158) |

The deferred income tax asset and liability balances at June 30 (in thousands) include:

| | 2011 | 2010 |
|----------------------------------|--------|--------|
| Deferred tax assets: | | |
| Accounts receivable | \$ 439 | \$ 437 |
| Property, plant and equipment | - | 7,204 |
| Employee compensation accruals | 5,962 | 6,377 |
| Stock based compensation | 2,680 | 3,008 |
| Deferred rent credits | 5,587 | 5,444 |
| Restructuring charges | 944 | 1,211 |
| Net operating loss carryforwards | 3,525 | 4,766 |
| Goodwill | 7,451 | 8,640 |
| Other, net | 5,153 | 5,100 |
| Total deferred tax asset | 31,741 | 42,187 |

| | | |
|---------------------------|-----------|-----------|
| Less: Valuation allowance | (23,554) | (36,226) |
| Net deferred tax assets | 8,187 | 5,961 |

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| | 2011 | 2010 |
|---------------------------------------|--------------|--------------|
| Deferred tax liabilities: | | |
| Inventories | 3,202 | 2,824 |
| Property, plant and equipment | 1,149 | - |
| Intangible assets other than goodwill | 14,225 | 14,295 |
| Commissions | 3,834 | 3,085 |
| Other, net | 23 | 66 |
| Total deferred tax liability | 22,433 | 20,270 |
| Net deferred tax asset (liability) | \$ (14,246) | \$ (14,309) |

The deferred income tax balances are classified in the Consolidated Balance Sheets as follows at June 30 (in thousands):

| | 2011 | 2010 |
|--|--------------|--------------|
| Current assets | \$ - | \$ - |
| Non-current assets | - | - |
| Current liabilities | (6,212) | (5,225) |
| Non-current liabilities | (8,034) | (9,084) |
| Total net deferred tax asset (liability) | \$ (14,246) | \$ (14,309) |

Note: Current deferred tax assets and liabilities and non-current deferred tax assets and liabilities have been presented net in the Consolidated Balance Sheets.

We evaluate our deferred taxes to determine if the “more likely than not” standard of evidence has not been met thereby supporting the need for a valuation allowance.

A full valuation allowance was established as of June 30, 2010. On that date the Company had a three year cumulative loss. Due to the economic times and recent losses and after considering both positive and negative evidence, management’s assessment is that realization of tax assets is not reasonably assured due to a lack of available objective evidence. As of June 30, 2011, the Company remains in a three year cumulative loss and the full valuation allowance remains in place, though at a reduced level after recording the impact of the changes in tax accounting methods made in the prior quarter ended December 31, 2010. The valuation allowance at June 30, 2011 was \$23.5 million vs. \$36.2 million at June 30, 2010. Of the total decrease, \$10.2 million is related to tax accounting method changes reported in our tax returns for the fiscal year ended June 30, 2010. Management will continue to assess the realizability of the tax assets based on actual and forecasted operating results on a quarterly basis, which, will likely cause volatility in the effective tax rate of the Company.

The Company’s deferred income tax assets at June 30, 2011 with respect to the net operating losses expire as follows (in thousands):

| | Deferred Income Tax Assets | Net Operating Loss Carryforwards |
|---|-------------------------------|-------------------------------------|
| United States (State), expiring between 2012 and 2031 | \$ 2,995 | \$ 65,067 |
| Foreign, expiring between 2029 and 2030 | 530 | 1,812 |

Deferred U.S. federal income taxes are not provided for unremitted foreign earnings of our foreign subsidiaries because we expect those earnings will be permanently reinvested.

Uncertain Tax Positions

We recognize interest and penalties related to income tax matters as a component of income tax expense. If the \$11.0 million of unrecognized tax benefits and related interest and penalties as of June 30, 2011 were recognized,

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approximately \$6.8 million would be recorded as a benefit to income tax expense. A reconciliation of the beginning and ending amount of unrecognized tax benefits including related interest and penalties as of June 30, 2011 and 2010 is as follows (in thousands):

| | 2011 | 2010 |
|--|-----------|-----------|
| Beginning balance | \$ 11,476 | \$ 13,060 |
| Additions based on tax positions in the current year | 2,400 | 3,247 |
| Additions for tax positions in prior years | 868 | 585 |
| Reductions for tax positions of prior years due to: | | |
| Statute expiration | (2,778) | (5,120) |
| Settlements | (939) | (296) |
| Ending balance | \$ 11,027 | \$ 11,476 |

It is reasonably possible that various issues relating to approximately \$7.2 million of the total gross unrecognized tax benefits as of June 30, 2011 will be resolved within the next twelve months as exams are completed or statutes expire. If recognized, approximately \$4.6 million of unrecognized tax benefits would reduce our tax expense in the period realized. However, actual results could differ from those currently anticipated.

The Company conducts business globally and, as a result, the Company or one or more of its subsidiaries files income tax returns in the U.S., various state, and foreign jurisdictions. In the normal course of business, the Company is subject to examination by the taxing authorities in such major jurisdictions as Canada, Mexico and the U.S. As of June 30, 2011, the Company and certain subsidiaries are currently under audit from 2001 through 2009 in the U.S. While the amount of uncertain tax benefits with respect to the entities and years under audit may change within the next twelve months, it is not anticipated that any of the changes will be significant.

(13) Employee Retirement Programs

The Ethan Allen Retirement Savings Plan

The Ethan Allen Retirement Savings Plan (the "Savings Plan") is a defined contribution plan, which is offered to substantially all of our employees who have completed three consecutive months of service regardless of hours worked. We may, at our discretion, make a matching contribution to the 401(k) portion of the Savings Plan on behalf of each participant. Total 401(k) Company match expense amounted to \$2.5 million in 2011, \$2.3 million in 2010, and \$1.3 million in 2009. The contribution was made half in cash and half in shares of the Company's common stock in 2011, and entirely in common stock in 2010 and 2009.

Other Retirement Plans and Benefits

Ethan Allen provides additional benefits to selected members of senior and middle management in the form of previously entered deferred compensation arrangements and a management cash bonus and other incentive programs. The total cost (credit) of these benefits was \$1.1 million, \$1.2 million, and \$(0.7) million in 2011, 2010 and 2009, respectively.

(14) Litigation

Environmental Matters

We and our subsidiaries are subject to various environmental laws and regulations. Under these laws, we and/or our subsidiaries are, or may be, required to remove or mitigate the effects on the environment of the disposal or release of

certain hazardous materials.

During fiscal 2009, three locations where we and/or our subsidiaries had been named as a Potentially Responsible Party (“PRP”) were resolved. In each case, we were not a major contributor based on the very small volume of waste generated by us in relation to total volume at those sites and were able to take part in de minimis

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settlement arrangements. In August 2010, the Company resolved the remaining environmental case in Carroll, New York in which it had been named as a PRP. As of June 30, 2011, we believe that the company is adequately reserved. We believe our currently anticipated capital expenditures for environmental control facility matters are not material.

We are subject to other federal, state and local environmental protection laws and regulations and are involved, from time to time, in investigations and proceedings regarding environmental matters. Such investigations and proceedings typically concern air emissions, water discharges, and/or management of solid and hazardous wastes. We believe that our facilities are in material compliance with all such applicable laws and regulations.

Regulations issued under the Clean Air Act Amendments of 1990 required the industry to reformulate certain furniture finishes or institute process changes to reduce emissions of volatile organic compounds. Compliance with many of these requirements has been facilitated through the introduction of high solids coating technology and alternative formulations. In addition, we have instituted a variety of technical and procedural controls, including reformulation of finishing materials to reduce toxicity, implementation of high velocity low pressure spray systems, development of storm water protection plans and controls, and further development of related inspection/audit teams, all of which have served to reduce emissions per unit of production. We remain committed to implementing new waste minimization programs and/or enhancing existing programs with the objective of (i) reducing the total volume of waste, (ii) limiting the liability associated with waste disposal, and (iii) continuously improving environmental and job safety programs on the factory floor, which serve to minimize emissions and safety risks for employees. We will continue to evaluate the most appropriate, cost effective, control technologies for finishing operations and design production methods to reduce the use of hazardous materials in the manufacturing process.

(15) 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, which are generally presented on a net-of-tax basis, may include foreign currency translation adjustments, minimum pension liability adjustments, fair value adjustments (i.e. gains and losses) on certain derivative instruments, and unrealized gains and losses on certain investments in debt and equity securities. We have reported our total comprehensive income in the Consolidated Statements of Shareholders' Equity.

Our accumulated other comprehensive income, which is comprised of losses on certain derivative instruments and accumulated foreign currency translation adjustments, totaled \$2.3 million at June 30, 2011 and \$1.2 million at June 30, 2010. Foreign currency translation adjustments are the result of changes in foreign currency exchange rates related to our operations in Canada and Mexico. 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.

(16) Segment Information

Our operations are classified into two operating segments: wholesale and retail. These operating segments represent strategic business areas which, although they operate separately and provide their own distinctive services, enable us to more effectively offer our complete line of home furnishings and accessories.

The wholesale segment is principally involved in the development of the Ethan Allen brand, which encompasses the design, manufacture, domestic and offshore sourcing, sale and distribution of a full range of home furnishings and accessories to a network of independently operated and Ethan Allen-operated design centers as well as related marketing and brand awareness efforts. Wholesale revenue is generated upon the wholesale sale and shipment of our product to all retail design centers, including those operated by Ethan Allen. Wholesale profitability includes (i) the wholesale gross margin, which represents the difference between the wholesale sales

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price and the cost associated with manufacturing and/or sourcing the related product, and (ii) other operating costs associated with wholesale segment activities.

The retail segment sells home furnishings and accessories to consumers through a network of Company-operated design centers. Retail revenue is generated upon the retail sale and delivery of our product to our customers. Retail profitability includes (i) the retail gross margin, which represents the difference between the retail sales price and the cost of goods purchased from the wholesale segment, and (ii) other operating costs associated with retail segment activities.

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

We evaluate performance of the respective segments based upon revenues and operating income. While the manner in which our home furnishings and accessories are marketed and sold is consistent, the nature of the underlying recorded sales (i.e. wholesale versus retail) and the specific services that each operating segment provides (i.e. wholesale manufacturing, sourcing, and distribution versus retail selling) are different. Within the wholesale segment, we maintain revenue information according to each respective product line (i.e. case goods, upholstery, or home accessories and other). Revenue information by product line is not as easily determined within the retail segment. However, we believe that the allocation of retail sales by product line would be similar to that of the wholesale segment. A breakdown of wholesale sales by product line for each of the last three fiscal years ended June 30 is provided below:

| | 2011 | | 2010 | | 2009 | |
|----------------------------|------|---|------|---|------|---|
| Case Goods | 39 | % | 40 | % | 41 | % |
| Upholstered Products | 46 | | 46 | | 41 | |
| Home Accessories and Other | 15 | | 14 | | 18 | |
| | 100 | % | 100 | % | 100 | % |

Information for each of the last three fiscal years ended June 30 is provided below (in thousands):

| Net Sales: | 2011 | | 2010 | | 2009 | |
|------------------------------------|------|------------|------|------------|------|------------|
| Wholesale segment | \$ | 422,946 | \$ | 362,468 | \$ | 403,378 |
| Retail segment | | 505,910 | | 438,539 | | 508,621 |
| Elimination of inter-company sales | | (249,896) | | (210,953) | | (237,722) |
| Consolidated Total | \$ | 678,960 | \$ | 590,054 | \$ | 674,277 |

| Operating Income: | 2011 | | 2010 | | 2009 | |
|---|------|-----------|------|-----------|------|-----------|
| Wholesale segment (1) | \$ | 49,223 | \$ | 14,201 | \$ | 6,670 |
| Retail segment (2) | | (14,669) | | (28,764) | | (92,100) |
| Adjustment for inter-company profit (3) | | (2,621) | | 2,828 | | 12,659 |
| Consolidated Total | \$ | 31,933 | \$ | (11,735) | \$ | (72,771) |

| Depreciation and Amortization | 2011 | | 2010 | | 2009 | |
|-------------------------------|------|--------|------|--------|------|--------|
| Wholesale segment | \$ | 9,199 | \$ | 16,574 | \$ | 12,148 |
| Retail segment | | 11,617 | | 12,824 | | 13,487 |
| Consolidated Total | \$ | 20,816 | \$ | 29,398 | \$ | 25,635 |

| | | | |
|-----------------------|-----------|----------|-----------|
| Capital Expenditures: | | | |
| Wholesale segment | \$ 6,604 | \$ 4,553 | \$ 3,246 |
| Retail segment | 2,490 | 5,369 | 19,291 |
| Acquisitions (4) | 2,957 | 50 | 1,366 |
| Consolidated Total | \$ 12,051 | \$ 9,972 | \$ 23,903 |

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| | June 30 2011 | June 30 2010 | June 30 2009 |
|----------------------------------|-----------------|-----------------|-----------------|
| Total Assets: | | | |
| Wholesale segment | \$ 309,081 | \$ 296,363 | \$ 276,250 |
| Retail segment | 347,044 | 360,413 | 397,877 |
| Inventory profit elimination (5) | (27,800) | (24,999) | (27,642) |
| Consolidated Total | \$ 628,325 | \$ 631,777 | \$ 646,485 |

(1) Operating income for the wholesale segment for the twelve months ended June 30, 2010 and 2009 includes a pre-tax restructuring and impairment benefit of \$0.2 million and charges of \$17.4 million, respectively.

(2) Operating income for the retail segment for the twelve months ended June 30, 2011, 2010 and 2009 includes pre-tax restructuring and impairment charges of \$1.1 million, \$2.7 million and \$49.6 million respectively.

(3) Represents the change in wholesale profit contained in the retail segment inventory at the end of the period.

(4) Acquisitions include the purchase of six retail design centers in 2011, one retail design center in 2010 and four retail design centers in 2009. See Note 3.

(5) The wholesale profit contained in the retail segment inventory that has not yet been realized. These profits are realized when the related inventory is sold.

There are 70 independent retail design centers located outside the United States. Approximately 6.3% of our net sales are derived from sales to these retail design centers.

(17) Selected Quarterly Financial Data (Unaudited)

Tabulated below is selected financial data for each quarter of the fiscal years ended June 30, 2011, 2010, and 2009 (in thousands, except per share data):

| | Quarter Ended | | | |
|---------------------------------------|---------------|-------------|------------|------------|
| | September 30 | December 31 | March 31 | June 30 |
| Fiscal 2011: | | | | |
| Net sales | \$ 164,841 | \$ 173,345 | \$ 162,822 | \$ 177,952 |
| Gross profit | 82,381 | 89,861 | 83,069 | 94,149 |
| Net income (loss) | 3,813 | 14,744 | 3,518 | 7,175 |
| Earnings (loss) per basic share (1) | 0.13 | 0.51 | 0.12 | 0.25 |
| Earnings (loss) per diluted share (1) | 0.13 | 0.51 | 0.12 | 0.25 |
| Dividend per common share | 0.05 | 0.05 | 0.05 | 0.07 |
| Fiscal 2010: | | | | |
| Net sales | \$ 136,190 | \$ 143,302 | \$ 147,258 | \$ 163,304 |
| Gross profit | 58,309 | 69,024 | 72,027 | 80,917 |
| Net income (loss) | (13,579) | (3,338) | (855) | (26,544) |
| Earnings (loss) per basic share (1) | (0.47) | (0.12) | (0.03) | (0.91) |
| Earnings (loss) per diluted share (1) | (0.47) | (0.12) | (0.03) | (0.91) |
| | 0.05 | 0.05 | 0.05 | 0.05 |

Dividend per common
share

Fiscal 2009:

| | | | | |
|--|------------|------------|------------|------------|
| Net sales | \$ 205,841 | \$ 189,558 | \$ 140,221 | \$ 138,657 |
| Gross profit | 111,941 | 101,801 | 66,050 | 67,550 |
| Net income (loss) | 7,422 | 5,488 | (48,674) | (16,923) |
| Earnings (loss) per basic share (1) | 0.26 | 0.19 | (1.69) | (0.58) |
| Earnings (loss) per diluted share (1) | 0.26 | 0.19 | (1.69) | (0.58) |
| Dividend per common share | 0.25 | 0.25 | 0.10 | 0.05 |

(1) The sum of the quarterly earnings per share may not equal the full-year total due to rounding and/or changes in share count.

(18) Financial Instruments

We determine fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal

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or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the Company. In addition, the fair value of liabilities includes consideration of non-performance risk including our own credit risk. Each fair value measurement is reported in one of the three levels, determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

- Level 1 – inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.
- Level 2 – inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The following section describes the valuation methodologies we use to measure different financial assets and liabilities at fair value.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents our assets and liabilities measured at fair value on a recurring basis at June 30, 2011 (in thousands):

| | Level 1 | Level 2 | Level 3 | Balance |
|-------------------------------|-----------|-----------|---------|------------|
| Cash equivalents | \$ 94,910 | \$ - | \$ - | \$ 94,910 |
| Available-for-sale securities | - | 12,909 | - | 12,909 |
| Total | \$ 94,910 | \$ 12,909 | \$ - | \$ 107,819 |

Cash equivalents consist of money market accounts and mutual funds in U.S. government and agency fixed income securities. We use quoted prices in active markets for identical assets or liabilities to determine fair value. At June 30, 2011, \$16.4 million of cash equivalents was restricted and is classified as a long-term asset.

Available-for-sale securities consist of U.S. municipal bonds with maturities of less than two years. These bonds are rated A+/A1 or better by S&P/Moodys respectively. There were no material gross unrealized gains or losses on available-for-sale securities at June 30, 2011 or June 30, 2010.

Additional information on available-for-sale securities balances at June 30 are provided in the following table (in thousands).

| | Amortized Cost | | Fair Value | |
|------|----------------|----|------------|--|
| | Basis | | | |
| 2011 | \$ 12,739 | \$ | 12,909 | |
| 2010 | \$ 10,976 | \$ | 10,986 | |

As of June 30, 2011, the contractual maturities of our available-for-sale investments were as follows (in thousands):

| | Cost | Estimated Fair Value |
|--|----------|----------------------|
| Due in one year or less | \$ 7,311 | \$ 7,393 |
| Due after one year through five years | \$ 5,428 | \$ 5,517 |

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Proceeds from sales of investments available for sale were \$7.3 million in fiscal 2011 and \$0.2 million during fiscal 2010, resulting in no material gain or loss in either period. There were no investments that have been in a continuous loss position for more than one year, and there have been no other-than-temporary impairments recognized.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

We measure certain assets, including our cost and equity method investments, at fair value on a nonrecurring basis. These assets are recognized at fair value when they are deemed to be other-than-temporarily impaired. During the year ended June 30, 2011, we did not record any other-than-temporary impairments on those assets required to be measured at fair value on a nonrecurring basis. During the third quarter of fiscal 2009, we determined that the goodwill for the retail segment was impaired, and a goodwill impairment charge of \$48.4 million was recorded (also see note 6).

(19) Restricted Cash and Investments

During fiscal 2010, we transferred \$17.3 million of cash into two restricted accounts. We transferred \$11.3 million as collateral for our workmen's compensation and other insurance liabilities, previously secured by a letter of credit. We also transferred \$6.0 million into a separate restricted account as collateral for the issuer of our private label credit cards to ensure funding for delivery of products sold. These restricted funds, which can be invested by us in money market mutual funds, and U.S. Treasuries and U.S. Government agency fixed income instruments with maturities of two years or less, cannot be withdrawn from our account without the prior written consent of the secured parties. These restricted funds are classified as long-term assets because they are not expected to be used within one year to fund operations. In fiscal 2011, \$1.0 million was transferred to operating cash from the restricted accounts due to a lowering of our collateral requirement for workmen's compensation insurance.

(20) Subsequent Events

None.

(21) Financial Information About the Parent, the Issuer and the Guarantors

On September 27, 2005, Global (the "Issuer") issued \$200 million aggregate principal amount of Senior Notes which have been guaranteed on a senior basis by Interiors (the "Parent"), and other wholly owned domestic subsidiaries of the Issuer and the Parent, including Ethan Allen Retail, Inc., Ethan Allen Operations, Inc., Ethan Allen Realty, LLC, Lake Avenue Associates, Inc. and Manor House, Inc. The subsidiary guarantors (other than the Parent) are collectively called the "Guarantors". The guarantees of the Guarantors are unsecured. All of the guarantees are full, unconditional and joint and several and the Issuer and each of the Guarantors are 100% owned by the Parent. Ethan Allen (UK) Ltd. and our other subsidiaries which are not guarantors are called the "Non-Guarantors".

The following tables set forth the condensed consolidating balance sheets as of June 30, 2011 and June 30, 2010, the condensed consolidating statements of operations for the twelve months ended June 30, 2011, 2010 and 2009, and the condensed consolidating statements of cash flows for the twelve months ended June 30, 2011, 2010 and 2009 of the Parent, the Issuer, the Guarantors and the Non-Guarantors.

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CONDENSED CONSOLIDATING BALANCE SHEET

(in thousands)

June 30, 2011

| | Parent | Issuer | Guarantors | Non-Guarantors | Eliminations | Consolidated |
|--|------------|------------|------------|----------------|-----------------|--------------|
| Assets | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$ - | \$ 69,763 | \$ 7,716 | \$ 1,040 | \$ - | \$ 78,519 |
| Marketable securities | - | 12,909 | - | - | - | 12,909 |
| Accounts receivable, net | - | 13,609 | 174 | 1,253 | - | 15,036 |
| Inventories | - | - | 164,938 | 4,554 | (27,800) | 141,692 |
| Prepaid expenses and other current assets | - | 4,598 | 14,866 | 908 | - | 20,372 |
| Intercompany receivables | - | 784,285 | 249,461 | (8,423) | (1,025,323) | - |
| Total current assets | - | 885,164 | 437,155 | (668) | (1,053,123) | 268,528 |
| Property, plant and equipment, net | - | 8,023 | 276,057 | 10,773 | - | 294,853 |
| Goodwill and other intangible assets | - | 37,905 | 7,223 | - | - | 45,128 |
| Restricted cash and investments | - | 16,391 | - | - | - | 16,391 |
| Other assets | - | 2,700 | 725 | - | - | 3,425 |
| Investment in affiliated companies | 602,699 | (93,132) | - | - | (509,567) | - |
| Total assets | 602,699 | 857,051 | 721,160 | 10,105 | (1,562,690) | 628,325 |
| Liabilities and Shareholders' Equity | | | | | | |
| Current liabilities: | | | | | | |
| Current maturities of long-term debt | - | - | 19 | - | - | 19 |
| Customer deposits | - | - | 59,633 | 3,016 | - | 62,649 |
| Accounts payable | - | 7,333 | 19,233 | 392 | - | 26,958 |
| Accrued expenses and other current liabilities | 2,130 | 43,212 | 18,746 | 902 | - | 64,990 |
| Intercompany payables | 318,882 | 597 | 702,748 | 3,096 | (1,025,323) | - |
| Total current liabilities | 321,012 | 51,142 | 800,379 | 7,406 | (1,025,323) | 154,616 |
| Long-term debt | - | 164,832 | 181 | - | - | 165,013 |
| Other long-term liabilities | - | 4,392 | 14,474 | 109 | - | 18,975 |
| Deferred income taxes | - | 8,034 | - | - | - | 8,034 |
| Total liabilities | 321,012 | 228,400 | 815,034 | 7,515 | (1,025,323) | 346,638 |
| Shareholders' equity | 281,687 | 628,651 | (93,874) | 2,590 | (537,367) | 281,687 |
| | \$ 602,699 | \$ 857,051 | \$ 721,160 | \$ 10,105 | \$ (1,562,690) | \$ 628,325 |

Total liabilities and
shareholders' equity

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CONDENSED CONSOLIDATING BALANCE SHEET

(in thousands)

June 30, 2010

| | Parent | Issuer | Guarantors | Non-Guarantors | Eliminations | Consolidated |
|--|------------|------------|------------|----------------|----------------|--------------|
| Assets | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$ - | \$ 67,269 | \$ 5,720 | \$ 863 | \$ - | \$ 73,852 |
| Marketable securities | - | 11,075 | - | - | - | 11,075 |
| Accounts receivable, net | - | 16,385 | 274 | 446 | - | 17,105 |
| Inventories | - | - | 154,621 | 4,418 | (24,999) | 134,040 |
| Prepaid expenses and other current assets | - | 11,018 | 12,011 | 591 | - | 23,620 |
| Intercompany receivables | - | 756,998 | 233,887 | (4,815) | (986,070) | - |
| Total current assets | - | 862,745 | 406,513 | 1,503 | (1,011,069) | 259,692 |
| Property, plant and equipment, net | - | 9,659 | 289,031 | 7,057 | - | 305,747 |
| Goodwill and other intangible assets | - | 37,905 | 7,223 | - | - | 45,128 |
| Restricted cash and investments | - | 17,318 | - | - | - | 17,318 |
| Other assets | - | 3,179 | 709 | 4 | - | 3,892 |
| Investment in affiliated companies | 571,323 | (69,963) | - | - | (501,360) | - |
| Total assets | 571,323 | 860,843 | 703,476 | 8,564 | (1,512,429) | 631,777 |
| Liabilities and Shareholders' Equity | | | | | | |
| Current liabilities: | | | | | | |
| Current maturities of long-term debt | - | - | 3,898 | - | - | 3,898 |
| Customer deposits | - | - | 49,990 | 2,615 | - | 52,605 |
| Accounts payable | 2,589 | 7,059 | 14,117 | 187 | - | 23,952 |
| Accrued expenses and other current liabilities | 1,559 | 44,642 | 18,540 | 546 | - | 65,287 |
| Intercompany payables | 308,716 | 597 | 672,644 | 4,113 | (986,070) | - |
| Total current liabilities | 312,864 | 52,298 | 759,189 | 7,461 | (986,070) | 145,742 |
| Long-term debt | - | 199,158 | 211 | - | - | 199,369 |
| Other long-term liabilities | - | 4,912 | 14,084 | 127 | - | 19,123 |
| Deferred income taxes | - | 9,084 | - | - | - | 9,084 |
| Total liabilities | 312,864 | 265,452 | 773,484 | 7,588 | (986,070) | 373,318 |
| Shareholders' equity | 258,459 | 595,391 | (70,008) | 976 | (526,359) | 258,459 |
| Total liabilities and shareholders' equity | \$ 571,323 | \$ 860,843 | \$ 703,476 | \$ 8,564 | \$ (1,512,429) | \$ 631,777 |

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CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

(in thousands)

Year Ended June 30, 2011

| | Parent | Issuer | Guarantors | Non-Guarantors | Eliminations | Consolidated |
|--|-----------|------------|--------------|----------------|---------------|--------------|
| Net sales | \$ - | \$ 423,458 | \$ 718,660 | \$ 29,861 | \$ (493,019) | \$ 678,960 |
| Cost of sales | - | 321,706 | 481,814 | 16,198 | (490,218) | 329,500 |
| Gross profit | - | 101,752 | 236,846 | 13,663 | (2,801) | 349,460 |
| Selling, general and administrative expenses | 180 | 43,791 | 259,539 | 12,891 | - | 316,401 |
| Restructuring and impairment charges | - | - | 1,126 | - | - | 1,126 |
| Total operating expenses | 180 | 43,791 | 260,665 | 12,891 | - | 317,527 |
| Operating income (loss) | (180) | 57,961 | (23,819) | 772 | (2,801) | 31,933 |
| Interest and other miscellaneous income (expense), net | 29,430 | (17,842) | 232 | 5 | (6,261) | 5,564 |
| Interest and other related financing costs | - | 10,847 | 279 | - | - | 11,126 |
| Income (loss) before income tax expense | 29,250 | 29,272 | (23,866) | 777 | (9,062) | 26,371 |
| Income tax expense (benefit) | - | (2,959) | - | 80 | - | (2,879) |
| Net income/(loss) | \$ 29,250 | \$ 32,231 | \$ (23,866) | \$ 697 | \$ (9,062) | \$ 29,250 |

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CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

(in thousands)

Year Ended June 30, 2010

| | Parent | Issuer | Guarantors | Non-Guarantors | Eliminations | Consolidated |
|--|--------------|--------------|--------------|----------------|---------------|--------------|
| Net sales | \$ - | \$ 363,038 | \$ 603,191 | \$ 22,463 | \$ (398,638) | \$ 590,054 |
| Cost of sales | - | 286,185 | 412,992 | 11,939 | (401,339) | 309,777 |
| Gross profit | - | 76,853 | 190,199 | 10,524 | 2,701 | 280,277 |
| Selling, general and administrative expenses | 195 | 41,930 | 236,791 | 10,659 | - | 289,575 |
| Restructuring and impairment charges | - | - | 2,437 | - | - | 2,437 |
| Total operating expenses | 195 | 41,930 | 239,228 | 10,659 | - | 292,012 |
| Operating income (loss) | (195) | 34,923 | (49,029) | (135) | 2,701 | (11,735) |
| Interest and other miscellaneous income (expense), net | (44,121) | (44,539) | 106 | 16 | 93,410 | 4,872 |
| Interest and other related financing costs | - | 11,619 | 305 | - | - | 11,924 |
| Income (loss) before income tax expense | (44,316) | (21,235) | (49,228) | (119) | 96,111 | (18,787) |
| Income tax expense (benefit) | - | 25,529 | - | - | - | 25,529 |
| Net income/(loss) | \$ (44,316) | \$ (46,764) | \$ (49,228) | \$ (119) | \$ 96,111 | \$ (44,316) |

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CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

(in thousands)

Year Ended June 30, 2009

| | Parent | Issuer | Guarantors | Non-Guarantors | Eliminations | Consolidated |
|--|--------------|--------------|---------------|----------------|---------------|--------------|
| Net sales | \$ - | \$ 404,543 | \$ 676,740 | \$ 21,042 | \$ (428,048) | \$ 674,277 |
| Cost of sales | - | 302,359 | 453,868 | 12,007 | (441,299) | 326,935 |
| Gross profit | - | 102,184 | 222,872 | 9,035 | 13,251 | 347,342 |
| Selling, general and administrative expenses | 165 | 49,191 | 293,296 | 10,460 | - | 353,112 |
| Restructuring and impairment charges | - | - | 67,001 | - | - | 67,001 |
| Total operating expenses | 165 | 49,191 | 360,297 | 10,460 | - | 420,113 |
| Operating income (loss) | (165) | 52,993 | (137,425) | (1,425) | 13,251 | (72,771) |
| Interest and other miscellaneous income (expense), net | (52,522) | (135,736) | 43 | 83 | 191,487 | 3,355 |
| Interest and other related financing costs | - | 11,459 | 305 | - | - | 11,764 |
| Income (loss) before income tax expense | (52,687) | (94,202) | (137,687) | (1,342) | 204,738 | (81,180) |
| Income tax expense (benefit) | - | (28,493) | - | - | - | (28,493) |
| Net income/(loss) | \$ (52,687) | \$ (65,709) | \$ (137,687) | \$ (1,342) | \$ 204,738 | \$ (52,687) |

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

(in thousands)

Year Ended June 30, 2011

| | Parent | Issuer | Guarantors | Non-Guarantor | Eliminations | Consolidated |
|---|-----------|-----------|------------|---------------|--------------|--------------|
| Net cash provided by (used in) operating activities | \$ 11,055 | \$ 38,590 | \$ 10,672 | \$ 2,845 | \$ - | \$ 63,162 |
| Cash flows from investing activities: | | | | | | |
| Capital expenditures | - | (1,182) | (5,017) | (2,895) | - | (9,094) |
| Acquisitions | - | - | (2,957) | - | - | (2,957) |
| Proceeds from the disposal of property, plant and equipment | - | - | 3,196 | - | - | 3,196 |
| Change in restricted cash and investments | - | 927 | - | - | - | 927 |
| Purchases of marketable securities | - | (9,466) | - | - | - | (9,466) |
| Sales of marketable securities | - | 7,319 | - | - | - | 7,319 |
| Other | - | 432 | - | - | - | 432 |
| Net cash used in investing activities | - | (1,970) | (4,778) | (2,895) | - | (9,643) |
| Cash flows from financing activities: | | | | | | |
| Payments on long-term debt | - | (33,989) | (3,898) | - | - | (37,887) |
| Purchases and other retirements of company stock | (5,377) | - | - | - | - | (5,377) |
| Proceeds from issuance of common stock | 76 | - | - | - | - | 76 |
| (Increase) decrease in deferred financing costs | - | (137) | - | - | - | (137) |
| Dividends paid | (5,754) | - | - | - | - | (5,754) |
| Net cash provided by (used in) financing activities | (11,055) | (34,126) | (3,898) | - | - | (49,079) |
| Effect of exchange rate changes on cash | - | - | - | 227 | - | 227 |
| Net increase (decrease) in cash and cash equivalents | - | 2,494 | 1,996 | 177 | - | 4,667 |
| | - | 67,269 | 5,720 | 863 | - | 73,852 |

Cash and cash
equivalents – beginning of
period

Cash and cash
equivalents – end of
period

| | | | | | |
|------|-----------|----------|----------|------|-----------|
| \$ - | \$ 69,763 | \$ 7,716 | \$ 1,040 | \$ - | \$ 78,519 |
|------|-----------|----------|----------|------|-----------|

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

(in thousands)

Year Ended June 30, 2010

| | Parent | Issuer | Guarantors | Non-Guarantors | Eliminations | Consolidated |
|---|----------|-----------|-------------|----------------|--------------|--------------|
| Net cash provided by (used in) operating activities | \$ 5,800 | \$ 48,466 | \$ (4,272) | \$ 1,337 | \$ - | \$ 51,331 |
| Cash flows from investing activities: | | | | | | |
| Capital expenditures | - | (393) | (6,706) | (2,823) | - | (9,922) |
| Acquisitions | - | - | (50) | - | - | (50) |
| Proceeds from the disposal of property, plant and equipment | - | - | 13,198 | - | - | 13,198 |
| Increase in restricted cash and investments | - | (17,318) | - | - | - | (17,318) |
| Purchases of marketable securities | - | (11,364) | - | - | - | (11,364) |
| Sales of marketable securities | - | 200 | - | - | - | 200 |
| Other | - | 165 | - | - | - | 165 |
| Net cash used in investing activities | - | (28,710) | 6,442 | (2,823) | - | (25,091) |
| Cash flows from financing activities: | | | | | | |
| Payments on long-term debt | - | - | (42) | - | - | (42) |
| Proceeds from issuance of common stock | 1 | - | - | - | - | 1 |
| (Increase) decrease in deferred financing costs | - | (199) | - | - | - | (199) |
| Dividends paid | (5,801) | - | - | - | - | (5,801) |
| Net cash provided by (used in) financing activities | (5,800) | (199) | (42) | - | - | (6,041) |
| Effect of exchange rate changes on cash | - | - | - | 693 | - | 693 |
| Net increase (decrease) in cash and cash equivalents | - | 19,557 | 2,128 | (793) | - | 20,892 |
| Cash and cash equivalents – beginning of period | - | 47,712 | 3,592 | 1,656 | - | 52,960 |
| | \$ - | \$ 67,269 | \$ 5,720 | \$ 863 | \$ - | \$ 73,852 |

Cash and cash
equivalents – end of
period

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

(in thousands)

Year Ended June 30, 2009

| | Parent | Issuer | Guarantors | Non-Guarantors | Eliminations | Consolidated |
|---|-----------|--------------|------------|----------------|--------------|--------------|
| Net cash provided by (used in) operating activities | \$ 23,615 | \$ (20,986) | \$ 18,710 | \$ 594 | \$ - | \$ 21,933 |
| Cash flows from investing activities: | | | | | | |
| Capital expenditures | - | (1,337) | (21,097) | (103) | - | (22,537) |
| Acquisitions | - | - | (1,366) | - | - | (1,366) |
| Proceeds from the disposal of property, plant and equipment | - | 88 | 6,296 | - | - | 6,384 |
| Other | - | 210 | (217) | - | - | (7) |
| Net cash used in investing activities | - | (1,039) | (16,384) | (103) | - | (17,526) |
| Cash flows from financing activities: | | | | | | |
| Payments on long-term debt | - | - | (41) | - | - | (41) |
| Proceeds from issuance of common stock | 2 | - | - | - | - | 2 |
| (Increase) decrease in deferred financing costs | - | (1,380) | - | - | - | (1,380) |
| Dividends paid | (23,617) | - | - | - | - | (23,617) |
| Net cash provided by (used in) financing activities | (23,615) | (1,380) | (41) | - | - | (25,036) |
| Effect of exchange rate changes on cash | - | - | - | (787) | - | (787) |
| Net increase (decrease) in cash and cash equivalents | - | (23,405) | 2,285 | (296) | - | (21,416) |
| Cash and cash equivalents – beginning of period | - | 71,117 | 1,307 | 1,952 | - | 74,376 |
| Cash and cash equivalents – end of period | \$ - | \$ 47,712 | \$ 3,592 | \$ 1,656 | \$ - | \$ 52,960 |

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(22) VALUATION AND QUALIFYING ACCOUNTS

The following table provides information regarding the Company's sales discounts, sales returns and allowance for doubtful accounts, and inventory valuation allowances (in thousands):

| | Balance at Beginning of Period | Additions (Reductions) Charged to Income | Adjustments and/or Deductions | Balance at End of Period |
|--|--------------------------------------|---|-------------------------------------|-----------------------------|
| Accounts Receivable: | | | | |
| Sales discounts, sales returns and allowance for doubtful accounts: | | | | |
| June 30, 2011 | \$ 1,160 | \$ 11 | \$ - | \$ 1,171 |
| June 30, 2010 | \$ 1,362 | \$ (202) | \$ - | \$ 1,160 |
| June 30, 2009 | \$ 2,535 | \$ (773) | \$ (400) | \$ 1,362 |

Inventory:

Inventory valuation allowance:

| | | | | |
|---------------|----------|-----------|-----------|----------|
| June 30, 2011 | \$ 2,072 | \$ (356) | \$ - | \$ 1,716 |
| June 30, 2010 | \$ 2,204 | \$ 400 | \$ (532) | \$ 2,072 |
| June 30, 2009 | \$ 2,260 | \$ - | \$ (56) | \$ 2,204 |

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

No changes in, or disagreements with, accountants as a result of accounting or financial disclosure matters, occurred during fiscal years 2011, 2010 or 2009.

Item 9A. Controls and Procedures

Management's Report on Disclosure Controls and Procedures

Our management, including the Chairman of the Board and Chief Executive Officer ("CEO") and the 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 June 30, 2011, our disclosure controls and procedures were effective in ensuring that material information relating to us (including our consolidated subsidiaries), which is required to be disclosed by us in our periodic reports filed or submitted under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to management, including the CEO and VPF, as appropriate, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) and 15d-15(f). Under the supervision and with the participation of management, including the CEO and VPF, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on that evaluation, management

concluded that our internal control over financial reporting was effective as of June 30, 2011.

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KPMG LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this Annual Report on Form 10-K, has also audited the effectiveness of our internal control over financial reporting as of June 30, 2011, as stated in their report included under Item 8 of this Annual Report.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth fiscal quarter ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Except as set forth below, the information required by Items 10, 11, 12, 13 and 14 will appear in the Ethan Allen Interiors Inc. proxy statement for the Annual Meeting of Shareholders scheduled to be held on November 15, 2011 (the "Proxy Statement"). The Proxy Statement, which will be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, is incorporated by reference in this Annual Report pursuant to General Instruction G(3) of Form 10-K (other than the portions thereof not deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934). In addition, the information set forth below is provided as required by Item 10 and the listing standards of the New York Stock Exchange ("NYSE").

Item 10. Directors, Executive Officers and Corporate Governance

Code of Ethics

We have adopted a code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. Our code of ethics can be accessed via our website at www.ethanallen.com/governance.

We intend to disclose any amendment of our Code of Ethics, or waiver of provision thereof, applicable to our principal executive officer and/or principal financial officer, or persons performing similar functions, on our website within 4 days of the date of such amendment or waiver. In the case of a waiver, the nature of the waiver, the name of the person to whom the waiver was granted, and the date of the waiver will also be disclosed.

Information contained on, or connected to, our website is not incorporated by reference into this Form 10-K and should not be considered part of this or any other report that we file with, or furnish to, the SEC.

Audit Committee Financial Expert

Our Board of Directors has determined that we have four "audit committee financial experts", as defined under Item 407(d)(5)(ii) of Regulation S-K of the Securities Exchange Act of 1934, currently serving on our Audit Committee. Those members of our Audit Committee who are deemed to be audit committee financial experts are as follows:

Clinton A.
Clark
John Dooner
Kristin Gamble

Don M.
Wilson, III

All persons identified as audit committee financial experts are independent from management as defined by Item 7(d)(3), of Schedule 14A.

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Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Equity Compensation Plan Information

The following table sets forth certain information regarding our equity compensation plans at June 30, 2011.

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column) |
|--|---|---|---|
| Equity compensation plans approved by security holders (1) | 2,199,362 | \$ 27.28 | 925,856 |
| Equity compensation plans not approved by security holders (2) | - | - | - |
| Total | 2,199,362 | \$ 27.28 | 925,856 |

(1) Amount includes stock options outstanding under our 1992 Stock Option Plan (the "Plan") as well as nonvested shares of restricted stock and vested Stock Units which have been provided for under the provisions of the Plan. See Note 11 to our Consolidated Financial Statements included under Item 8 of this Annual Report.

(2) As of June 30, 2011, we do not maintain any equity compensation plans which have not been approved by our shareholders.

NYSE Certification

Mr. Kathwari, Chief Executive Officer and President, has certified to the NYSE, pursuant to Section 303A.12 of the NYSE's Listing Company Manual, that he is unaware of any violation by the Company of the NYSE's corporate governance listing standards.

PART IV

Item 15. Exhibits and Financial Statement Schedules

I. Listing of Documents

(1) Financial Statements. Our Consolidated Financial Statements, included under Item 8 hereof, as required at June 30, 2011 and 2010, and for the years ended June 30, 2011, 2010 and 2009 consist of the following:

Consolidated Balance Sheets

Consolidated Statements of Operations

Consolidated Statements of Cash Flows

Consolidated Statements of Shareholders' Equity

Notes to Consolidated Financial Statements

(2) Financial Statement Schedule. The schedules listed in Reg. 210.5-04 have been omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

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

| Exhibit Number | Exhibit |
|-------------------|--|
| 3 (a) | Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3(c) to the Registration Statement on Form S-1 of the Company filed with the SEC on March 16, 1993) |
| 3 (a)-1 | Certificate of Amendment to Restated Certificate of Incorporation as of August 5, 1997 (incorporated by reference to Exhibit 3(c)-2 to the Quarterly Report on Form 10-Q of the Company filed with the SEC on May 13, 1999) |
| 3 (a)-2 | Second Certificate of Amendment to Restated Certificate of Incorporation as of March 27, 1998 (incorporated by reference to Exhibit 3(c)-3 to the Quarterly Report on Form 10-Q of the Company filed with the SEC on May 13, 1999) |
| 3 (a)-3 | Third Certificate of Amendment to Restated Certificate of Incorporation as of April 28, 1999 (incorporated by reference to Exhibit 3(c)-4 to the Quarterly Report on Form 10-Q of the Company filed with the SEC on May 13, 1999) |
| 3 (b) | Certificate of Designation relating to the New Convertible Preferred Stock (incorporated by reference to the Registration Statement on Form S-1 of the Company filed with the SEC on March 16, 1993) |
| 3 (c) | Certificate of Designation relating to the Series C Junior Participating Preferred Stock (incorporated by reference to Exhibit 1 to Form 8-A of the Company filed with the SEC on July 3, 1996) |
| 3 (c)-1 | Certificate of Amendment of Certificate of Designation of Series C Junior Participating Preferred Stock (incorporated by reference to Exhibit 3(c)-1 to the Annual Report on Form 10-K of the Company filed with the SEC on September 13, 2005) |
| 3 (d) | Amended and Restated By-laws of the Company (incorporated by reference to Exhibit 3(d) to the Registration Statement on Form S-1 of the Company filed with the SEC on March 16, 1993) |
| 3 (e) | Certificate of Incorporation of Ethan Allen Global, Inc. (incorporated by reference to Exhibit 3(e) to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with the SEC on February 3, 2006) |
| 3 (f) | By-laws of Ethan Allen Global, Inc. (incorporated by reference to Exhibit 3(f) to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with the SEC on February 3, 2006) |
| 3 (g) | Restated Certificate of Incorporation of Ethan Allen Inc. (now known as, Ethan Allen Retail, Inc.) (incorporated by reference to Exhibit 3(g) to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with the SEC on February 3, 2006) |
| 3 (g)-1 | Certificate of Amendment of Restated Certificate of Incorporation of Ethan Allen Inc. (now known as Ethan Allen Retail, Inc.) as of June 29, 2005 (incorporated by reference to Exhibit 3(g)-1 to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with the SEC on February 3, 2006) |
| 3 (h) | Amended and Restated By-laws of Ethan Allen Inc. (now known as Ethan Allen Retail, Inc.) (incorporated by reference to Exhibit 3(h) to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with the SEC on February 3, 2006) |
| 3 (i) | Certificate of Incorporation of Ethan Allen Manufacturing Corporation (now known as Ethan Allen Operations, Inc.) (incorporated by reference to Exhibit 3(i) to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with the SEC |

- on February 3, 2006)
- 3 (i)-1 Certificate of Amendment of Certificate of Incorporation of Ethan Allen Manufacturing Corporation (now known as, Ethan Allen Operations, Inc.) as of June 29, 2005 (incorporated by reference to Exhibit 3(i)-1 to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with the SEC on February 3, 2006)
- 3 (j) By-laws of Ethan Allen Manufacturing Corporation (now known as, Ethan Allen Operations, Inc.) (incorporated by reference to Exhibit 3(j) to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with the SEC on February 3, 2006)
- 3 (k) Certificate of Formation of Ethan Allen Realty, LLC (incorporated by reference to Exhibit 3(k) to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with the SEC on February 3, 2006)
- 3 (l) Limited Liability Company Operating Agreement of Ethan Allen Realty, LLC (incorporated

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| | by reference to Exhibit 3(l) to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with the SEC on February 3, 2006) |
| 3 (l)-1 | Amendment No. 1 to Operating Agreement of Ethan Allen Realty, LLC as of June 30, 2005 (incorporated by reference to Exhibit 3(l)-1 to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with the SEC on February 3, 2006) |
| 3 (m) | Certificate of Incorporation of Lake Avenue Associates, Inc. (incorporated by reference to Exhibit 3(m) to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with the SEC on February 3, 2006) |
| 3 (n) | By-laws of Lake Avenue Associates, Inc. (incorporated by reference to Exhibit 3(n) to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with the SEC on February 3, 2006) |
| 3 (o) | Certificate of Incorporation of Manor House, Inc. (incorporated by reference to Exhibit 3(o) to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with the SEC on February 3, 2006) |
| 3 (p) | Restated By-laws of Manor House, Inc. (incorporated by reference to Exhibit 3(p) to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with the SEC on February 3, 2006) |
| 4 (a) | Rights Agreement, dated July 26, 1996, between the Company and Harris Trust and Savings Bank (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of the Company filed with the SEC on July 3, 1996) |
| 4 (a)-1 | Amendment No. 1 to Rights Agreement, dated as of December 23, 2004 between the Company and Harris Trust Savings Bank and Computershare Investor Services, LLC (incorporated by reference to Exhibit 4(a)-1 to the Annual Report on Form 10-K of the Company filed with the SEC on September 13, 2005) |
| 4 (a)-2 | Amendment No. 2 dated as of May 31, 2011, between the Company and Computershare Trust Company, N.A. (incorporated by reference to Exhibit 4(a)-2 to the Current Report on Form 8-K filed with the SEC on May 31, 2011) |
| 4 (b) | Form of outstanding 5.375% Senior Note due 2015 pursuant to Rule 144A of the Securities Act (incorporated by reference to Exhibit A to Exhibit 10.2 to the Current Report on Form 8-K of the Company filed with the SEC on September 30, 2005) |
| 4 (c) | Indenture dated September 27, 2005, by and among Ethan Allen Global, Inc., the Guarantors named therein, and the Initial Purchaser named therein, relating to the Notes (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Ethan Allen Interiors Inc. filed with the SEC on September 30, 2005) |
| 4 (d) | Form of Exchange Note (incorporated by reference to Exhibit 4(d) to the Registration Statement on Form S-4 of Ethan Allen Global, Inc. filed with the SEC on February 3, 2006) |
| 10 (a) | Restated Directors Indemnification Agreement dated March 1993, among the Company and Ethan Allen and their Directors (incorporated by reference to Exhibit 10(c) to the Registration Statement on Form S-1 of the Company filed with the SEC on March 16, 1993) |
| 10 (b) | The Ethan Allen Retirement Savings Plan as Amended and Restated, effective January 1, 2006 (incorporated by reference to Exhibit 10(b)-7 to the Quarterly Report on Form 10-Q of the Company filed with the SEC on November 5, 2007) |
| 10 (c) | General Electric Capital Corporation Credit Card Program Agreement dated August 25, 1995 (incorporated by reference from Exhibit 10(h) to the Annual Report on Form 10-K of the Company filed with the SEC on September 21, 1995) |
| 10 (c)-1 | First Amendment to Credit Card Program Agreement dated February 22, 2000 (incorporated by reference to Exhibit 10(h)-1 to the Annual Report on Form 10-K |

- of the Company filed with the SEC on September 13, 2000)
- 10 (d) Sales Finance Agreement, dated June 25, 1999, between the Company and MBNA America Bank, N.A. (incorporated by reference to Exhibit 10(j) to the Annual Report on Form 10-K of the Company filed with the SEC on September 13, 2000)
- 10 (e) Second Amended and Restated Private Label Consumer Credit Card Program Agreement, dated as of July 23, 2007, by and between Ethan Allen Global, Inc., Ethan Allen Retail, Inc. and GE Money Bank (incorporated by reference to Exhibit 10(e)-3 to the Quarterly Report on Form 10-Q of the Company filed with the SEC on November 5, 2007)(confidential treatment granted under Rule 24b-2 as to certain portions which are omitted and filed separately with the SEC.)

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| 10 (e)-1 | First Amendment to Second Amended and Restated Private Label Consumer Credit Card Program Agreement, dated as of July 25, 2008, by and between Ethan Allen Global, Inc., Ethan Allen Retail, Inc. and GE Money Bank (incorporated by reference as Exhibit 10(e)-1 to the Quarterly Report on Form 10-Q of the Company filed with the SEC on May 10, 2010) |
| 10 (e)-2 | Second Amendment to Second Amended and Restated Private Label Consumer Credit Card Program Agreement, dated as of February 16, 2010, by and between Ethan Allen Global, Inc., Ethan Allen Retail, Inc. and GE Money Bank (incorporated by reference as Exhibit 10(e)-2 to the Quarterly Report on Form 10-Q of the Company filed with the SEC on May 10, 2010) (confidential treatment granted under Rule 24b-2 as to certain portions which are omitted and filed separately with the SEC). |
| 10 (e)-3 | Third Amendment to Second Amended and Restated Private Label Consumer Credit Card Program Agreement, dated as of June 30, 2011, by and between Ethan Allen Global, Inc., Ethan Allen Retail, Inc. and GE Money Bank (incorporated by reference to Exhibit 10(e)-3 to the Quarterly Report on Form 10-Q of the Company filed with the SEC on November 3, 2010) (Confidential treatment under Rule 24b-2 requested as to certain portions which are omitted and filed separately with the SEC). |
| 10 (f) | Employment Agreement, dated as of November 13, 2007, between Mr. Kathwari and Ethan Allen Interiors Inc. (incorporated by reference to Exhibit 10(h) to the Current Report on Form 8-K of the Company filed with the SEC on November 19, 2007 |
| 10 (g)-1 | Credit Agreement, dated as of May 29, 2009, among Ethan Allen Global, Inc., Ethan Allen Interiors Inc., J.P. Morgan Chase Bank, N.A., and Capital One Leverage Finance Corp (confidential treatment requested as to certain portions. Incorporated by reference to Exhibit 10(g)-2 to the Annual Report on Form 10-K of the Company filed with the SEC on August 24, 2009) |
| 10 (g)-2 | Amendment No. 1, dated as of October 23, 2009 to the Credit Agreement dated May 29, 2009, among Ethan Allen Global, Inc., Ethan Allen Interiors Inc., J.P.Morgan Chase Bank, N.A., and the lenders thereunder (incorporated by reference to the Quarterly Report on Form 10-Q of the Company filed with the SEC on November 9, 2009). |
| 10 (g)-3 | Amendment No. 2, dated as of March 25, 2011, to the Credit Agreement dated May 29, 2009, among Ethan Allen Global, Inc., Ethan Allen Interiors Inc., J.P.Morgan Chase Bank, N.A., and Wells Fargo Bank, National Association (incorporated by reference to the Quarterly Report on Form 10-Q of the Company filed with the SEC on May 5, 2011). |
| 10 (h) | Amended and Restated 1992 Stock Option Plan (incorporated by reference to Exhibit 10(f) to the Current Report on Form 8-K of the Company filed with the SEC on November 19, 2007) |
| 10 (h)-1 | Form of Option Agreement for Grants to Independent Directors (incorporated by reference to Exhibit 10(h)-4 to the Annual Report on Form 10-K of the Company filed with the SEC on September 13, 2005 |
| 10 (h)-2 | Form of Option Agreement for Grants to Employees (incorporated by reference to Exhibit 10(h)-5 to the Annual Report on Form 10-K of the Company filed with the SEC on September 13, 2005 |
| 10 (h)-3 | Form of Restricted Stock Agreement for Executives (incorporated by reference to Exhibit 10(f)-1 to the Current Report on Form 10-8 of the Company filed with the |

- SEC on November 19, 2007
- 10 (h)-4 Form of Restricted Stock Agreement for Directors (incorporated by reference to Exhibit 10(f)-2 to the Current Report on Form 8-K of the Company filed with the SEC on November 19, 2007)
- 10 (i) Purchase Agreement dated September 22, 2005, by and between Ethan Allen Global, Inc., the Guarantors named therein, and the Initial Purchaser named therein, relating to the Initial Notes (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of the Company filed with the SEC on September 30, 2005)
- 10 (j) Registration Rights Agreement dated September 27, 2005, by and among Ethan Allen Global, Inc., the Guarantors named therein, and the Initial Purchaser named therein, relating to the Notes (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K of Ethan Allen Interiors Inc. filed with the SEC on September 30, 2005)
- * 12 (a) Computation of Ratio of Earnings to Fixed Charges
- * 21 List of wholly-owned subsidiaries of the Company

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| * 23 | Consent of KPMG LLP |
| * 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 Certification of Principal Executive Officer |
| * 32.2 | Section 1350 Certification of Principal Financial Officer |

* Filed herewith.

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SIGNATURES

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

ETHAN ALLEN INTERIORS INC.
(Registrant)

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

By: /s/ David R. Callen
(David R. Callen)
Vice President, Finance and Treasurer
(Principal Financial Officer and Principal
Accounting Officer)

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

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

| | |
|---------------------|---|
| /s/ David R. Callen | Vice President, Finance and Treasurer |
| (David R. Callen) | (Principal Financial Officer and Principal Accounting Officer) |

| | |
|----------------------|----------|
| /s/ Clinton A. Clark | Director |
| (Clinton A. Clark) | |

| | |
|-----------------|----------|
| /s/ John Dooner | Director |
| (John Dooner) | |

| | |
|--------------------|----------|
| /s/ Kristin Gamble | Director |
| (Kristin Gamble) | |

| | |
|------------------------|----------|
| /s/ James W. Schmotter | Director |
| (James W. Schmotter) | |

| | |
|------------------------|----------|
| /s/ Don M. Wilson, III | Director |
| (Don M. Wilson, III) | |

| | |
|---------------------|----------|
| /s/ Frank G. Wisner | Director |
| (Frank G. Wisner) | |

Date: August 18, 2011

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