

ETHAN ALLEN®

ANNUAL REPORT

2017



FINANCIAL HIGHLIGHTS

STATEMENT OF OPERATIONS DATA	2017	2016	2015
Net sales	\$763,385	\$794,202	\$754,600
Gross profit	\$419,723	\$442,236	\$411,163
Operating income	\$57,950	\$89,179	\$65,934
Net income	\$36,194	\$56,637	\$37,142
PER SHARE DATA			
Net income per diluted share	\$1.29	\$2.00	\$1.27
Diluted weighted average common shares outstanding	27,958	28,324	29,182
BALANCE SHEET DATA			
Cash and securities (a)	\$65,031	\$60,479	\$86,390
Working capital	\$116,653	\$124,857	\$130,012
Current ratio	1.92 TO 1	2.01 TO 1	1.92 TO 1
Total assets	\$568,222	\$577,409	\$605,977
Total debt, including capital lease obligations	\$14,339	\$41,838	\$76,237
Shareholders' equity	\$400,706	\$391,998	\$370,258
Debt as % of equity	3.6%	10.7%	20.6%
Debt as % of capital	3.5%	9.6%	17.1%
CASH RETURNED TO SHAREHOLDERS			
Dividends paid	\$20,031	\$16,646	\$13,348
Cost of shares repurchased	\$10,246	\$19,346	\$16,470
Number of shares repurchased	357,363	697,799	645,831

Amounts in thousands, except share data. Fiscal years ended June 30. Certain reclassifications have been made to prior years to conform to current year's presentation of deferred financing fees as a component of debt.

(a) Includes cash and cash equivalents, marketable securities, and restricted cash and investments.

DEAR FELLOW SHAREHOLDERS,

We are pleased with the excellent progress we made during fiscal 2017. We strengthened our offerings, service, and marketing programs as well as our environmental and social responsibility focus. It is clear that the initiatives we have implemented over the past couple of years have positioned us for growth and enhanced shareholder returns.

We achieved net sales for fiscal 2017 of \$763.4 million, operating income of \$58.0 million, net income of \$36.2 million, and earnings per diluted share of \$1.29. We also returned \$30.3 million to shareholders in share repurchases and dividends.

Our strategic focus continues to center on creating an experience that “wows” the customer.

EXPANDED OFFERINGS

During fiscal 2017, we continued to introduce stylish new products that infused fashion with quality and value. We introduced several new projections, including Santa Monica, Brooklyn, and our Ethan Allen | Disney collection.

Vertical integration gives us control over every aspect of our business, from designing our products to manufacturing, retailing, and delivering them to our clients, all with shortened delivery times.

CUSTOMER EXPERIENCE THAT DIFFERENTIATES

Ethan Allen is uniquely positioned to provide interior design service, with more than 2,000 interior design professionals throughout our global network of 148 company-operated and 155 independently owned Design Centers.

We continue to reposition our Design Centers with 24% new or relocated within the past five years. Our new locations average less than 10,000 square feet and incorporate technology to accelerate the design and selling processes.

Another key service focus is our Premier In-Home Delivery, a white-glove delivery service offered at one national price—a major competitive advantage.

COMBINING TECHNOLOGY WITH PERSONAL SERVICE

Combining technology with personal service is one of the major differentiators of great customer service. We continue to refine a dynamic omnichannel experience for our clients.

This year we empowered our designers with the ability to interact with our clients online through a new Live Chat tool, made major enhancements to ethanallen.com (including adding 3D product views), and launched our new Ethan Allen | Disney website.

EXPANDED MARKETING

With our major product refresh complete, we greatly expanded our marketing, increasing advertising by more than 16%. We launched a major national television advertising program and expanded our digital marketing. Our marketing focused on our core messages of interior design service, style, quality, and value.

ENVIRONMENTAL & SOCIAL RESPONSIBILITY

Vertical integration makes it possible for us to establish and deliver on commitments to environmental stewardship, sustainability, health and safety, and social responsibility. New manufacturing technology, combined with the talents of our craftspeople, has made our manufacturing division—the division that is also the base of our stewardship and social responsibility platform—even stronger.

The continued strengthening of our vertically integrated structure reflects the focused efforts and accomplishments of all our talented associates in North America and elsewhere. I would like to thank all of them, as well as our clients and shareholders, for their continued support. We look forward to an exciting fiscal 2018 and beyond.



FAROOQ KATHWARI

Chairman, President and CEO
Ethan Allen Interiors Inc.





STRENGTHENING
OUR FOUNDATION



After 85 years in business, the name “Ethan Allen” means craftsmanship, service, and style. We begin our journey toward the future anchored in—and extraordinarily proud of—that established brand identity.

SUPERIOR CRAFTSMANSHIP

In the 1930s, Nat Ancell and Ted Baumritter purchased a sawmill in Vermont and began making their own furniture. They produced a 28-piece line of Early American-style furniture and named their business after Revolutionary War icon Ethan Allen.

Even though we operate in a high-inventory, commodity-driven world, **we still make approximately 75 percent of our products in our North American workshops.** This supply chain efficiency gives us a competitive advantage in terms of both cost and market positioning at a time when U.S. market conditions favor renewed emphasis on domestic manufacturing.

Factors like increasing home values and improved stock market returns are boosting consumer confidence, making big-ticket purchases like home furnishings more appealing. **Our manufacturing standards equip us to drive quality to the highest level,** which combines with our complimentary design service to position us well.

Many Ethan Allen products are made to order, a model that delivers exceptional quality. In light of competitive

realities, we continue to expand product lines that provide our high standard of special order craftsmanship—the hallmark of Ethan Allen—within shorter delivery lead times. For example, to craft our Custom Quick Ship Upholstery items, we keep some of our most popular fabrics and leathers in stock, with the frames built and upholstered by hand in our North American workshops and delivered to the customer within 30 days. **Today, 85% of our case goods and 20% of our sofas are available for fast shipment,** and we’re expanding the number of hard accents, soft accents, and rugs that can be delivered within a shorter timeframe.

Our craftsmanship is a key differentiator for Ethan Allen within the current market environment. When we select international partners, we choose businesses that share our commitment to quality. From our case goods, to our hand-tailored upholstery, to even our artwork, hand-framed by artisans in our Passaic, New Jersey, workshop—**products bearing the Ethan Allen name are built to last.**



2%
CANADA



63%
UNITED STATES





303 DESIGN CENTERS

148 COMPANY OPERATED

155 INDEPENDENTLY OPERATED

35%
INTERNATIONAL

SINGULAR SERVICE

In 1962, Ethan Allen launched **a new kind of furniture shopping experience**: the gallery. We displayed our furnishings as projections of rooms, professionally designed with combinations of furnishings and accessories that complemented one another. Shopping became a transformative experience when consumers could discover the room of their dreams and re-create it in their own homes.

Building on the customer experience created in those early galleries, **our Design Center network—303 worldwide and still growing strong—continues to evolve.** We incorporate interactive touchscreen technology and mobile tablets to make the design experience tactile and collaborative, and we're exploring new technologies like

augmented reality for an even more personal, immersive experience. Our **complimentary design service is a major market differentiator**; customers can obtain free assistance in their homes, in our Design Centers, and online via Live Chat.

When customers purchase Ethan Allen furniture, they receive it via our Premier In-Home Delivery service.

After each piece is crafted, it's sent to a distribution or service center for careful inspection and then transported to customers' homes. As part of our "white glove" service, we provide on-site assembly and disposal of select items that have been replaced. In addition, our designers can visit sites for complimentary premeasure appointments, ensuring a seamless process on delivery day.



ETHAN

ETHAN ALLEN

SKILLED TEAM MEMBERS

Our talented team of design consultants and interior design affiliates have decades of experience and multiple industry awards under their belts.

They are the most visible ambassadors of the Ethan Allen brand, and we encourage them to take an entrepreneurial approach to marketing and building their client base.


Recognizing our talent pool as a competitive advantage, we have expanded our efforts to promote individual designers and their work. We use email marketing, social media, video, image-driven blog interviews, and dedicated online portfolio pages to highlight their achievements and artistry. Additionally, we have created video, imagery, and copy that recognizes the work of people in our nine manufacturing plants, three distribution centers, and 67 retail division and independent retail service centers. **We honor those who have spent their careers crafting, delivering, and ensuring the quality of Ethan Allen products.**

Additionally, as part of the vertical integration provided by our manufacturing, distribution, and retail operations, we conduct our own marketing and advertising efforts. As we drive new and repeat customers into our Design Centers, we rely on artists, photographers, writers, and analysts who understand the changing marketplace and **embrace new mediums of communicating with customers** –yet remain firmly rooted in the brand identity that makes Ethan Allen a household name.



EXPANDING
OUR REACH





When we shifted away from Early American style in the 1990s, we proved we could evolve as our customer base changed. We recognize a similar need for change now, and as generations come and go, we will continue to adapt to the times.



©Disney

BUILDING NEW RELATIONSHIPS

We believe **our core values of craftsmanship, service, and skill are as valuable today as they were 85 years ago.** The mediums through which we communicate our value, however, have shifted to accommodate the ways consumers absorb content. **We balance the preferences of our core customers with the necessity of connecting with a new generation.**

We have always been a business that builds lifelong relationships with our customers rather than following a high-cost, price-sensitive mass market strategy. This emphasis on relationships guides our digital lead generation and social networking efforts, which are visible in our revamped, visually driven blog, entitled “The Daily Muse,” and our presence on multiple social networks and on Houzz.com. We encourage our designers to engage in grassroots marketing, and we recognize their most effective efforts. We also promote user-generated content, using the hashtag #EthanAllenDesign, a project that has given even our direct mail marketing a more customer-focused angle.

Through television and direct mail, we connect with our established customer segments; through our digital efforts and fresh product lines, we’re establishing a new

community among millennials. As millennials begin their families, we recognize an opportunity, and from small initiatives like the use of Crypton® stain-resistant fabrics to major product launches like Ethan Allen | Disney, we’re seizing it.

Millennials are a diverse generation marked by a desire to be treated as individuals, and Ethan Allen is poised to deliver that experience. **By emphasizing personalization and customization rather than commodity furniture,** by honoring diversity in our product line, and by encouraging individual expression through #HowIEthanAllen, we position Ethan Allen as the go-to brand of a new generation.

Additionally, millennial consumers demand greater social responsibility from the businesses they patronize. **Our emphasis on sustainability,** covered in greater depth later in this report, has long been a part of our company culture. We further refined our approach through our partnership with Disney, a long-recognized leader in corporate social responsibility. **Commitments to environmental stewardship, safe processes, and social responsibility are authentic to our business.** They now offer the added benefit of differentiating our business in the eyes of millennial consumers.



GET PROFESSIONAL DESIGN SERVICES
 Individual. Inspiring. Always on the house.

OUR DESIGNERS

They're creative professionals who work in personal services, and they're also the best at what they do. They're the ones who can help you with your home, your office, or your business. They're the ones who can help you with your home, your office, or your business. They're the ones who can help you with your home, your office, or your business.

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PLAYING TO OUR STRENGTHS

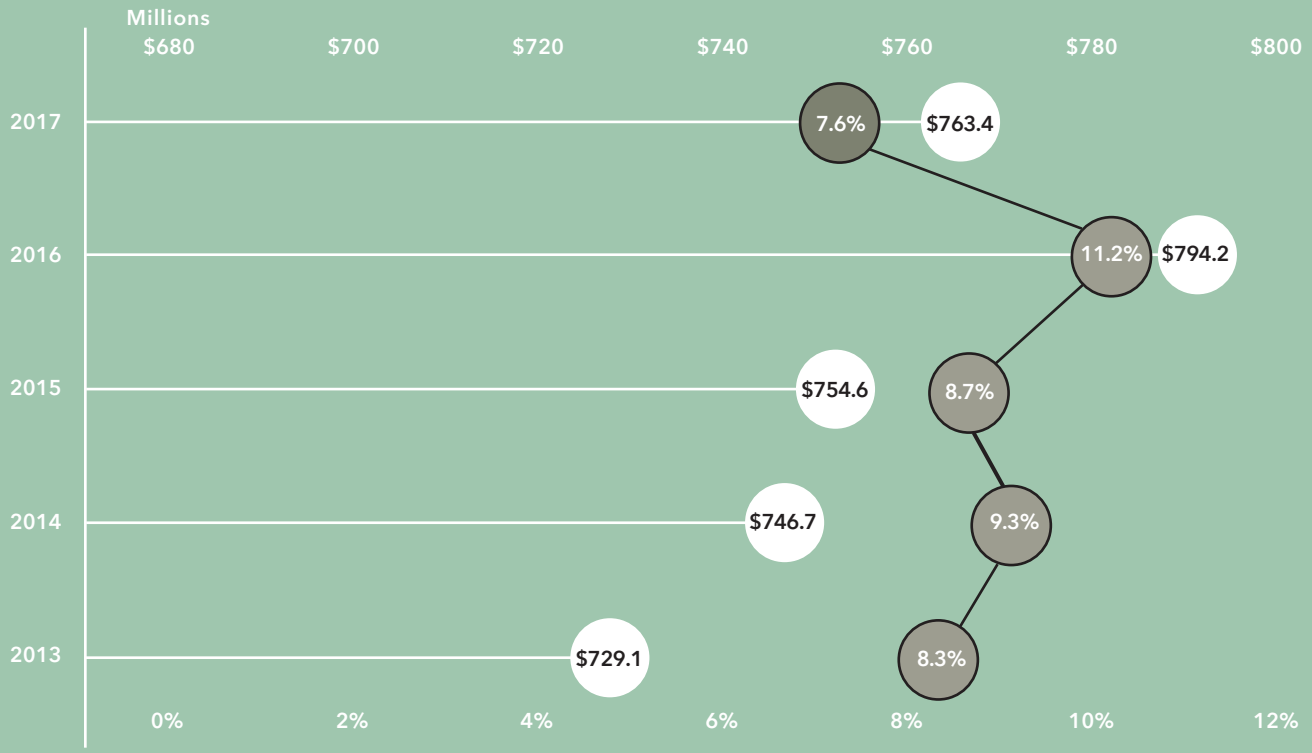
The balance between brick-and-mortar and online shopping has been shifting for many years. It's a reality reflected in the smaller average footprints of our new Design Centers—8,700 average square feet for Design Centers opened in the past three years versus 15,000 square feet in years past. At the same time, **we understand the tremendous value of personal service**, so many of our marketing efforts are designed to drive traffic into our Design Centers.

During the second half of fiscal 2017, we launched a national television advertising campaign to promote our diversity of style and the value of our design service. **We also deployed Live Chat**, which makes designers available online, adding a new level of simplicity and convenience for our clients and fostering the designer/client connection.

Today, the majority of our customers initially seek us online through both desktop and mobile channels. To adapt, we incorporated responsive design into our e-commerce site and blog to ensure that customers could interact with us using any available device or operating system. **Our emphasis on personal service is part of our identity, and catering to customers as individuals is what sets us apart.**

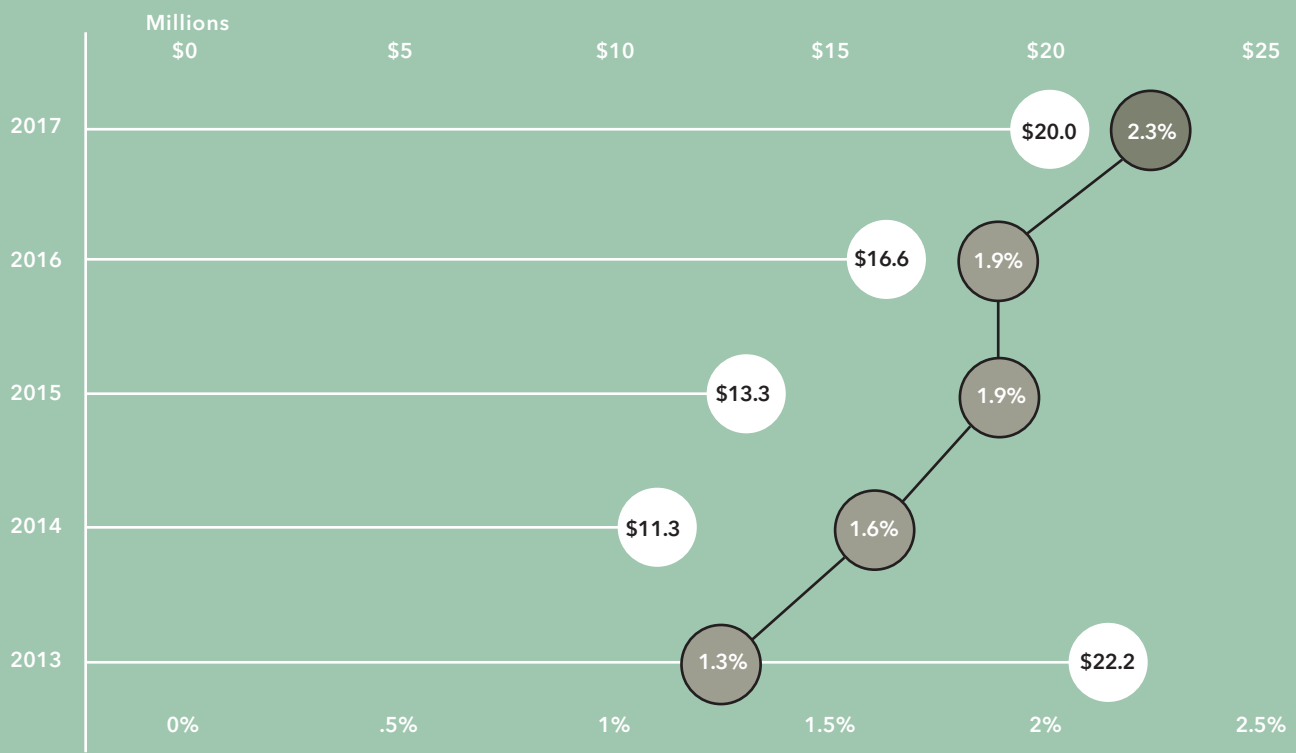
CONSOLIDATED SALES & OPERATING MARGIN

Consolidated Net Sales 
 GAAP Operating Margin 



TOTAL SPECIAL & REGULAR DIVIDENDS PAID

Cash Dividends Paid—Total 
 Dividend Yield 



UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended June 30, 2017

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, including area code (203) 743-8000

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. [X] 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 [X] 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. [X] Yes [] No

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). [X] 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, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer [X] Accelerated filer []
Non-accelerated filer [] Do not check if smaller reporting company Smaller reporting company []
Emerging growth company []

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to section 13(a) of the Exchange Act. []

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 voting and non-voting stock held by non-affiliates of the registrant on December 31, 2016, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$703,752,000. As of July 31, 2017, there were 27,447,215 shares of the registrant's common stock, par value \$.01 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: Certain designated information contained in the registrant's definitive Proxy Statement for the 2017 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 to the extent described herein.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

PART I

Item 1. Business

Overview

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 interior design company and manufacturer and retailer of quality home furnishings. Founded in 1932, today we are a leading international home fashion brand doing business in North America, Asia, the Middle East and Europe. We are vertically integrated from design through delivery, affording our clientele a value proposition of style, quality and price. We offer complimentary interior design service to our clients and sell a full range of furniture products and decorative accents through ethanallen.com and a retail network of approximately 300 design centers in the United States and abroad. The design centers represent a mix of independent licensees and our own Company operated retail segment. We own and operate nine manufacturing facilities including six manufacturing plants and one sawmill in the United States and one manufacturing plant in Mexico and one in Honduras. Approximately 75% of the products sold by the Company are manufactured in our North American plants.

Available Information

Our website is www.ethanallen.com. Information contained on our website is not part of this Annual Report on Form 10-K. Information that we furnish or file with the Securities and Exchange Commission (the "SEC"), including our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to, or exhibits included in, these reports are available for download, free of charge, on our website soon after such reports are filed with or furnished to the SEC. Our SEC filings, including exhibits filed therewith, are also available on the SEC's website at www.sec.gov. You may obtain and copy any document we furnish or file with the SEC at the SEC's public reference room at 100 F Street, NE, Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the SEC's public reference facilities by calling the SEC at 1-800-SEC-0330. You may request copies of these documents, upon payment of a duplicating fee, by writing to the SEC at its principal office at 100 F Street, NE, Room 1580, Washington, D.C. 20549.

Operating Segments

Our wholesale and retail operating segments represent strategic business areas of our vertically integrated enterprise that operate separately and provide their own distinctive services. This vertical structure enables us to offer our complete line of home furnishings and accents more effectively while controlling quality and cost. We evaluate performance of the respective segments based upon revenues and operating income. Inter-segment transactions result, primarily, from the wholesale sale of inventory to the retail segment, including the related profit margin. For certain financial information regarding our operating segments, see Note 15 to the Consolidated Financial Statements included under Item 8 of this Annual Report and incorporated herein by reference.

As of June 30, 2017, the Company operated 148 design centers (our retail segment) and our independent retailers operated 155 design centers. Our wholesale segment net sales include sales to our retail segment, which are eliminated in consolidation, and sales to our independent retailers. Our retail segment net sales accounted for 79% of our consolidated net sales in fiscal 2017. Our wholesale segment net sales to independent retailers accounted for 21%, including approximately 11.9% of our consolidated net sales in fiscal 2017 to ten of our largest independent retailers, operating 101 design centers.

Wholesale Segment Overview:

The wholesale segment, principally involved in the development of the Ethan Allen brand, encompasses all aspects of design, manufacture, sourcing, marketing, sale, and distribution of our broad range of home furnishings and accents. Wholesale revenue is generated upon the sale and shipment of our products to our retail network of independently operated design centers and Company operated design centers.

Within the wholesale segment, we maintain revenue information according to each respective product line (i.e. case goods, upholstery, and home accents and other). Case goods include items such as beds, dressers, armoires, tables, chairs, buffets, entertainment units, home office furniture, and wooden accents. Upholstery items include sleepers, recliners and other motion furniture, chairs, ottomans, custom pillows, sofas, loveseats, cut fabrics and leather. Skilled artisans cut, sew and upholster custom-designed upholstery items which are available in a variety of frame, fabric and trim options. Home accent and other items include window treatments and drapery hardware, wall decor, florals, lighting, clocks, mattresses,

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

bedspreads, throws, pillows, decorative accents, area rugs, wall coverings and home and garden furnishings.

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

	<u>Fiscal Year Ended June 30,</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Case Goods	33%	32%	34%
Upholstered Products	51%	51%	48%
Home Accents and Other	<u>16%</u>	<u>17%</u>	<u>18%</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>

We offer a mix of custom made-to-order and in-stock product programs. Our wholesale backlogs as of June 30, 2017 and June 30, 2016, were approximately \$47.4 million and \$40.3 million respectively. Because the size of our backlog at a given time may not be indicative of our future revenues, we do not rely entirely on backlogs to predict future revenues.

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.

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.

Retail Segment Overview:

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

We measure the performance of our design centers based on net sales and written orders booked on a comparable period basis. Comparable design centers are those which have been operating for at least 15 months, including relocated design centers provided the original and relocated design center location had been operating for at least 15 months on a combined basis. During the first three months of operations of newly opened design centers, written orders are booked but minimal net sales are achieved through the delivery of products. Design centers we acquire from independent retailers are included in comparable design center sales in their 13th full month of Ethan Allen-owned operations. The frequency of our promotional events as well as the timing of the end of those events can also affect the comparability of orders booked during a given period. During fiscal 2017, we opened six new design centers, two of which were relocations. The geographic distribution of retail design center locations is included under Item 2 of Part I of this Annual Report.

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

	<u>Fiscal Year Ended June 30,</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Case Goods	30%	31%	32%
Upholstered Products	48%	47%	45%
Home Accents and Other	<u>22%</u>	<u>22%</u>	<u>23%</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>

Products

Our strategy has been to position Ethan Allen as a preferred brand offering complimentary design service together with products of superior style, quality and value to provide consumers with a comprehensive, one-stop shopping solution for their home furnishing and interior 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 current fashion trends in home decorating. One such example of this strategy is our new Ethan Allen | Disney product program, launched during fiscal 2017. We continuously monitor changes in home fashion trends through attendance at international industry events and fashion shows, internal market research, and regular communication with our retailers and design center design consultants

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

who provide valuable input on consumer trends. 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.

75% of our furniture is built by artisans, one piece at a time, in our North American workshops. Most frames are hand-assembled and stitching is guided by hand. We select international partners who are as committed to quality as we are. All case good frames are made with premium lumber and veneers. We use best-in-class construction techniques, including mortise and tenon joinery and four-corner glued dovetail joinery on drawers. We combine technology with personal service and maintain an up-to-date broad range of styles and custom options in keeping with today's home decorating trends. These factors continue to define Ethan Allen, positioning us as a fashion leader in the home furnishing industry.

The interior of our design centers, which were substantially refreshed during the past two fiscal years, are 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 website in applications used on large touch-screen flat panel displays.

Product Development and Sourcing Activities

Using a combination of on staff and outsourced product designers, we design the majority of the products we sell. All of our products are branded Ethan Allen. This important facet of our vertically integrated business enables us to control the design specifications and establish consistent levels of quality across the products in our own North American plants. We source approximately 25% of the products we sell from third-party suppliers, most of which are located outside the United States, primarily in Asia. We carefully select our sourcing partners and require them to provide products according to our specifications and quality standards. We believe that strategic investments in our manufacturing facilities balanced with outsourcing from foreign and domestic suppliers will accommodate significant future sales growth and allow us to maintain an appropriate degree of control over cost, quality and service to our customers.

Environmental Sustainability and Social Responsibility

We are focused on environmental and social responsibility and incorporating uniform social, environmental, health and safety programs into our manufacturing standards.

Our "green" initiatives include but are not limited to the use of responsibly harvested Appalachian woods, water based finishes and measuring our carbon footprint, greenhouse gases and recycled materials from our operations. We have implemented the Enhancing Furniture's Environmental Culture (EFEC) environmental management system sponsored by the American Home Furnishing Alliance (AHFA) at all our domestic manufacturing, distribution and service center facilities, and have expanded these efforts to our retail design centers, which have now been registered in EFEC. Our Mexico and Honduras facilities have been audited and are registered under the AHFA's EFEC program. Our domestic manufacturing, distribution and service centers have also achieved Sustainable by Design (SBD) registration status under the EFEC program. SBD provides a framework for home furnishings companies to create and maintain a corporate culture of conservation and environmental stewardship by integrating socio-economic policies and sustainable business practices into their manufacturing operations and sourcing strategies.

The Company requires its sourcing facilities that manufacture Ethan Allen branded products to implement a labor compliance program and meet or exceed the standards established for preventing child labor, involuntary labor, coercion & harassment, discrimination, and restrictions to freedom of association. These facilities must also provide a safe and healthy environment in all workspaces, compliance with all local wage and hour laws and regulations, compliance with all applicable environmental laws and regulations, and they must authorize Ethan Allen and/or its designated agents (including third-party auditing companies) to engage in monitoring activities to confirm compliance.

Raw Materials and Other Suppliers

The most important raw materials we use in furniture manufacturing are lumber, veneers, plywood, hardware, glue, finishing materials, glass, laminates, fabrics, foam, and filling material. The various types of wood used in our products include cherry, ash, oak, maple, prima vera, African mahogany, birch, rubber wood and poplar.

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 and availability fluctuate over time based on factors such as weather and demand. The cost of some of our raw materials such as

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foam and shipping costs are dependent on petroleum cost. Higher material prices, cost of petroleum, and costs of sourced products 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 products. 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.

Distribution and Logistics

We distribute our products through three distribution centers, owned by the Company, strategically located in New Jersey, Oklahoma, and Virginia. These distribution centers provide efficient cross-dock operations to receive and ship product from our manufacturing facilities and third-party suppliers to our retail network of Company and independently operated retail service centers. Retail service centers prepare products for delivery into clients' homes. At June 30, 2017, the Company operated retail design centers were supported by 14 Company operated retail service centers and 15 service centers operated by third parties.

While we manufacture to custom order the majority of our products, we also stock selected case goods, upholstery and home accents to provide for quick delivery of in-stock items and to allow for more efficient production runs. Wholesale shipments utilize our own fleet of trucks and trailers or are subcontracted with independent carriers. Our fleet of trucks are financed under capital lease agreements with remaining terms ranging from less than two to over three years, and all of our trailers are owned.

Our practice has been to sell our products at the same delivered cost to all Company and independently operated design centers in North America, regardless of their shipping point. This policy creates pricing credibility with our wholesale customers while providing our retail segment the opportunity to achieve more consistent margins by removing fluctuations attributable to the cost of shipping. Further, this policy eliminates 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.

Marketing Programs

Our multifaceted, multichannel marketing and advertising strategies drive traffic both to design centers and our digital mediums. We believe these efforts give us a strong competitive advantage in the home furnishings industry while benefiting our worldwide retail network of approximately 300 design centers as well as the independent members of our Interior Design Affiliate program.

Our team of advertising specialists works to position Ethan Allen as an authority on design, a leader in exemplary service, and a source of style for everyone. In our marketing campaigns, we capitalize on Ethan Allen's strong brand equity, finding creative and compelling ways to promote our tremendous range of products, services, special programs, and custom options. We deliver these messages in a variety of ways – locally, nationally, and globally – to connect and engage with our target audience and drive sales.

As digital channels have taken on increasing importance, we continue to expand our digital marketing reach – supplementing traditional advertising strategies. Our channels include digital and social media, national and local television, direct mail, national and local newspapers, local and satellite radio, and local shelter magazines. Additionally, our robust email marketing program delivers inspiration, sales messages, design solutions, and product information to an ever-expanding database of current and potential clients.

Our direct mail magazine, which emphasizes the breadth of our products and services, is one of Ethan Allen's key marketing tools. We produce these magazines multiple times a year; in fiscal 2017, we distributed approximately 21 million copies. We distribute them to targeted marketing segments based on data collected internally and through independent market research. We continually refine our direct mail marketing lists to target clients and potential clients who are most likely to purchase, which provides better returns on direct mail expenditures.

Our websites – ethanallen.com, ethanallen.ca, ethanallen.com/disney, and ethanallen.ca/disney – undergo continuous conversion optimization to boost sales as clients shop, design, and purchase. We also have a web presence to support our international licensees – in some cases, using local languages; in all cases, linking back to ethanallen.com. These websites position Ethan Allen in a manner consistent with our brand yet specific to the region.

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A robust and informative Extranet connects our retail network, keeping the lines of communication open among our retailers, design professionals, merchandisers, trainers, and corporate personnel. Information about every aspect of Ethan Allen's retail business is shared here, including advertising materials, prototype floor plan displays, and extensive product details.

Retail Design Centers

Ethan Allen design centers are typically located in busy retail settings as freestanding destinations or as part of town centers, lifestyle centers, suburban strip malls or shopping malls, depending upon the real estate opportunities in a particular market. Our design centers average approximately 15,000 square feet in size with 76% between 15,000 and 25,000 square feet and 20% less than 15,000 square feet and 4% greater than 25,000 square feet.

Combining technology with personal service in our design centers has allowed us to reduce the size of our design centers. As of June 30, 2017 we operated 19 design centers that have opened in the past three years, and these average 8,700 square feet. These smaller footprint design centers reflect our direction as we move forward in repositioning our retail design centers. These new and relocated design centers also reflect our shift from destination and shopping mall locations to lifestyle centers that better project our brand and offer increased traffic opportunities.

We strive to maintain consistency of presentation throughout our retail design centers through a comprehensive set of standards and display planning assistance. These interior display design standards 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 consistent brand projection through our exterior facades and signage. The establishment of these standards has helped position Ethan Allen as a leader in the home furnishings industry.

We continue to strengthen the Ethan Allen brand with many initiatives, including the opening of new and relocating design centers in desirable locations, updating 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.

People

At June 30, 2017 and June 30, 2016, the Company, through its subsidiaries, had approximately 5,200 employees. The majority of our employees are employed on a fulltime basis and we believe we maintain good relationships with our employees, none of whom are represented by unions.

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 and redeem gift cards through our website or at any participating retail design center, which can be used for any of our products or services.

Ethan Allen Consumer Credit Programs

The Ethan Allen Platinum program offers consumers (clients) a menu of custom financing options. Financing offered through this program 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 Platinum card at any participating design center or on-line at ethanallen.com.

Competition

The domestic and global home furnishings industry faces numerous challenges, which include an influx of low-priced products from overseas. As a result, there is a high degree of competition in our markets. 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 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, and we believe it is becoming increasingly important. Although much of that product is sold through commodity oriented, low priced and low service retailers, we believe consumers are spending more time window shopping on the internet and are

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thus better informed when they do visit our brick and mortar facilities. At Ethan Allen, the ultimate goal of our internet strategy is to drive traffic into our design centers by combining technology with excellent personal service. Through our digital mediums, 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 help from our interior design professionals. Consumers also have the ability to immediately chat on-line with one of our qualified design consultants. This complimentary direct contact with one of our knowledgeable interior designers creates a competitive advantage through our excellent personal service. This enhances the online 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 accent items. We intend to continue to balance our own North American 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 direct manufacturing, product presentations, 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 intensive training. Our objective is to continue to develop and strengthen our retail network by (i) expanding the Company operated retail business through the repositioning of and opening of new design centers, (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, (iii) further expanding our sales network through our IDA and realtor referral programs and (iv) further expanding our ecommerce.

Trademarks

We currently hold, or have registration applications pending for, numerous trademarks, service marks and copyrights 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.

Executive Officers of the Registrant

Set forth in the table below is a list of our executive officers, together with certain biographical information, including their ages as of the date of this Report:

M. Farooq Kathwari, age 72

- Chairman of the Board, President and Chief Executive Officer since 1988

Daniel M. Grow, age 71

- Senior Vice President, Business Development since February 2015
- Vice-President, Business Development from 2009 to 2015

Eric D. Koster, age 70

- Vice-President, General Counsel and Secretary since April 2013
- Private practice prior to joining the Company in April 2013

Tracy Paccione, age 51

- Vice-President, Merchandising since June 2009

Clifford Thorn, age 65

- Vice-President, Upholstery Manufacturing since May 2001

Corey Whitely, age 57

- Executive Vice-President, Administration, Chief Financial Officer and Treasurer since July 2014
- Executive Vice-President, Operations from October 2007 through July 2014

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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 Annual Report and in other filings, when making an investment decision with respect to us. If one or more of these risks occurs, the impact on our business, including our financial condition, results of operations, and cash flows could be adverse.

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 network sells home furnishings to consumers through a network of independently operated and 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, nationally or globally, 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 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 home accent 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 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, digital, 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 face changes in global and local economic conditions that may adversely affect consumer demand and spending, our manufacturing operations or sources of merchandise and international operations.

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, wage and benefit inflation, currency fluctuations, and increasing interest rates, may continue to cause

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inconsistent and unpredictable consumer spending habits, while increasing our own input 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 and operate manufacturing plants in Mexico and Honduras and operate retail design centers in Canada. As a result, our ability to obtain adequate supplies or to control 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, labor availability and cost, and other governmental policies of the U.S. and the countries from which we import our merchandise or in which we operate facilities. 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.

The Company's business may be adversely affected by changes in U.S. policy related to imported merchandise.

A significant amount of the Company's merchandise is sourced from outside of the United States. The U.S. government is considering proposals for substantial changes to its trade and tax policies, which could include import restrictions, increased import tariffs, changes to or withdrawal from existing trade agreements, and border-adjustment taxes among other possible measures. Material changes in these policies could increase the Company's tax obligations or require the Company to increase prices to customers, which would likely adversely affect sales. Any significant change in U.S. policy related to imported merchandise could have a material adverse effect on the Company's business and financial results.

An economic downturn may materially adversely affect our business.

Our business and results of operations are affected by international, national and regional economic conditions. Regional economic conditions in the United States and in other regions of the world where we have a concentration of design centers such as Canada or China may impact the Company greater compared to economic conditions in other parts of the world where we have lesser concentration of design centers. An economic downturn of significance or extended duration could adversely affect consumer demand and discretionary spending habits and, as a result, our business performance, profitability, and cash flows.

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

We have a limited 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 home accents plant. Our upholstery operations consist of three upholstery plants at our North Carolina campus and one plant in Mexico. The Company operates three manufacturing plants (North Carolina, Vermont, and Honduras) and 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. As a result of the consolidation of our manufacturing operations into fewer facilities, if any of our manufacturing or logistics sites experience significant business interruption, our ability to manufacture or deliver our products in a timely manner 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.

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 North America. 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 significant downturn in the U.S. economy.

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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.

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.

The Company's sales and operating results could be adversely affected by product safety concerns.

If the Company's merchandise offerings do not meet applicable safety standards or consumers' expectations regarding safety, the Company could experience decreased sales, increased costs and/or be exposed to legal and reputational risk. Events that give rise to actual, potential or perceived product safety concerns could expose the Company to government enforcement action and/or private litigation. Reputational damage caused by real or perceived product safety concerns could negatively affect the Company's business and results of operations.

The Company relies heavily on information and technology to operate its business, and any disruption to its technology infrastructure (including cyber attacks) or the internet could harm the Company's operations.

We operate many aspects of our business including financial reporting, and customer relationship management through server and web-based technologies, and store various types of data on such servers or with third-parties who in turn store it on servers and in the "cloud". Any disruption to the internet or to the Company's or its service providers' global technology infrastructure, including malware, insecure coding, "Acts of God," attempts to penetrate networks, data theft or loss and human error, could have adverse effects on the Company's operations. A cyber attack of our systems or networks that impairs our information technology systems could disrupt our business operations and result in loss of service to customers. We have a comprehensive cybersecurity program designed to protect and preserve the integrity of our information technology systems. We have experienced and expect to continue to experience actual or attempted cyber attacks of our IT systems or networks; however, none of these actual or attempted cyber attacks had a material impact on our operations or financial condition. Additionally, we have access to sensitive customer information in the ordinary course of business. If a significant data breach occurred, our reputation may be adversely affected, customer confidence may be diminished, or we may be subject to legal claims, any of which may contribute to the loss of customers and have a material adverse impact on our business. While we have invested and continue to invest in information technology risk management, cybersecurity and disaster recovery plans, these measures cannot fully insulate the Company from technology disruptions or data theft or loss and the resulting adverse effect on the Company's operations and financial results.

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 artisans, professional and clerical employees 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 and benefit costs may continue to increase and such increases may not be recovered. This could have a material adverse effect on our business, operating results and financial condition.

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

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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.

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 debt service, operations and growth. As we operate and expand our business, we may rely on external funding sources, including the proceeds from the issuance of additional debt or use of the \$115 million revolving bank line of credit under our existing \$150 million credit facility. The credit facility bears interest at a floating rate and there is a risk that the rate will increase and as we are not hedging our interest rate for the credit facility, our debt service costs could increase. Any unexpected reduction in cash flow from operations could increase our external funding requirements to levels above those currently available. 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 on acceptable terms or at all.

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. If capital market conditions have a material negative change, there is a risk that our business partner that issues our private label credit card program may not be able to fulfill its obligations under that agreement. In addition, the tightening of credit markets may restrict the ability and willingness of customers to make purchases.

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

Historically, we have relied on our cash from operations or debt issuances 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.

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 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.

Our design centers are typically located in busy urban settings as freestanding destinations or as part of suburban strip malls or shopping 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, changes in consumer order patterns, and the timing of various promotional events. 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.

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Failure to protect our intellectual property could adversely affect us.

We believe that our copyrights, trademarks, service marks, trade secrets, 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.

We could incur substantial costs due to compliance with conflict mineral regulations, which may materially adversely affect our business, operating results, and financial condition.

The SEC has adopted rules regarding disclosure of the use of tantalum, tin, tungsten, and gold (commonly referred to as conflict minerals), which are mined from the Democratic Republic of the Congo and surrounding countries. This requirement could affect the sourcing of materials used in some of our products as well as the companies we use to manufacture our products. If our products are found to contain conflict minerals sourced from the Democratic Republic of the Congo or surrounding countries, the Company would take actions such as changing materials or designs to reduce the possibility that the purchase of conflict minerals may fund armed groups in the region. These actions could add engineering and other costs to the manufacture of our products.

We expect to incur costs to continue to upgrade our process to discover the origin of the tantalum, tin, tungsten, and gold used in our products, and to audit our conflict minerals disclosures. Our reputation and consequently our financial condition may also suffer if we have included conflict minerals originating in the Democratic Republic of the Congo or surrounding countries in our products, and those conflict minerals funded armed groups in the region.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our 144,000 sq. ft. corporate headquarters, located in Danbury, Connecticut, and adjacent Ethan Allen Hotel and Conference Center, containing approximately 200 guestrooms, are owned by the Company. The hotel is used primarily for functions and accommodations for the general public as well as in connection with Ethan Allen functions and training programs.

We operate nine manufacturing facilities located in the U.S., Mexico and Honduras. These facilities are owned by the Company and include four case good plants (including one sawmill) totaling 1,789,000 square feet, four upholstery furniture plants totaling 1,250,000 square feet, and one home accent plant of 177,000 square feet. Our wholesale division also owns and operates three national distribution and fulfillment centers, one of which shares a facility with our manufacturing, which are a combined 1,001,000 square feet. Two of our case goods manufacturing facilities are located in Vermont, one is in North Carolina and one is in Honduras. We have three upholstery manufacturing facilities at our North Carolina campus, and one in Mexico. During fiscal 2017, the Company's 300,000 square foot expansion at our upholstery plant in Mexico was completed. Our home accents plant is located in New Jersey, and our distribution facilities are located in New Jersey, Oklahoma, and Virginia.

We own three and lease 11 retail service centers, totaling approximately 775,000 square feet. Our retail service centers are located throughout the United States and Canada and serve to support our various retail sales districts.

The location activity and geographic distribution of our retail network for fiscal years ended June 30 are as follows:

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	Fiscal 2017			Fiscal 2016		
	Independent retailers	Company- operated	Total	Independent retailers	Company- operated	Total
Retail Design Center location activity:						
Balance at beginning of period	153	143	296	155	144	299
New locations	8	6	14	15	10	25
Closures	(5)	(2)	(7)	(16)	(12)	(28)
Transfers	(1)	1	-	(1)	1	-
Balance at end of period	155	148	303	153	143	296
Relocations (in new and closures)	1	2	3	2	6	8
Retail Design Center geographic locations:						
United States	48	142	190	50	137	187
Canada	-	6	6	-	6	6
China	82	-	82	83	-	83
Other Asia	12	-	12	11	-	11
Europe	6	-	6	2	-	2
Middle East	7	-	7	7	-	7
Total	155	148	303	153	143	296

Of the 148 Company operated retail design centers, 49 of the properties are owned and 99 are leased, 17 of which are ground leases. We own one and lease four additional retail properties, two of which are subleased to independent Ethan Allen retailers, and three of which are subleased to unaffiliated third parties. See Note 7 to the Consolidated Financial Statements included under Item 8 of this Annual Report for more information with respect to our operating lease obligations.

We believe that all our properties are well maintained and in good condition. We estimate that our manufacturing plants are currently operating at approximately 61% of capacity based on their current shifts and staffing. We believe we have additional capacity at selected facilities, which we could utilize with minimal additional capital expenditures.

Item 3. Legal Proceedings

In the ordinary course of our business, we are party to various legal proceedings and claims which we believe are incidental to the operation of our business. Other than as described under Note 13 to our consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K, we believe the ultimate outcome of these proceedings to which we are currently a party will not have a material adverse effect on our business, financial position, results of operations or cash flows.

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. To reduce the use of hazardous materials in the manufacturing process, we will continue to evaluate the most appropriate, cost-effective control technologies for finishing operations and production methods. We believe that our facilities are in material compliance with all such applicable laws and regulations. Our currently anticipated capital expenditures for environmental control facility matters are not material.

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Item 4. Mine Safety Disclosures

Not applicable.

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 ("NYSE") 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 sales prices of our common stock as reported on the NYSE and (ii) the dividends per share declared by us:

	<u>Market Price</u>		Dividends
	<u>High</u>	<u>Low</u>	<u>Per Share</u>
<u>Fiscal 2017</u>			
First Quarter	\$ 36.77	\$ 30.63	0.17
Second Quarter	38.80	29.20	0.19
Third Quarter	37.90	27.75	0.19
Fourth Quarter	32.50	26.75	0.19
 <u>Fiscal 2016</u>			
First Quarter	\$ 31.87	\$ 25.76	0.14
Second Quarter	29.65	25.30	0.14
Third Quarter	32.10	22.46	0.17
Fourth Quarter	35.31	29.39	0.17

As of July 31, 2017, there were 255 shareholders of record of our common stock. Management estimates there are approximately 9,000 beneficial shareholders of the Company's common stock. The Company's policy is to issue quarterly dividends, and we expect to continue to declare quarterly dividends for the foreseeable future, business conditions permitting.

Equity Compensation Plan Information

The Equity Compensation Plan Information required by this Item will appear in the Ethan Allen Interiors Inc. proxy statement for the Annual Meeting of Shareholders scheduled to be held on November 15, 2017 and is incorporated herein by reference in the introductory paragraph of Part III of this Annual Report.

Issuer Purchases of Equity Securities

During the fiscal year ended June 30, 2017 the Company repurchased 357,363 shares of our common stock at an average price of \$28.67 per share. Certain information regarding purchases of our common stock made by us during the three months ended June 30, 2017 is as follows:

<u>Period</u>	<u>Number of Shares Purchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs</u>
April 2017	-	\$ -	-	1,650,160
May 2017	186,167	\$ 27.62	186,167	1,463,993
June 2017	<u>63,496</u>	\$ 27.35	<u>63,496</u>	1,400,497
Total	<u>249,663</u>	\$ 27.55	<u>249,663</u>	

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 aggregate authorization under the

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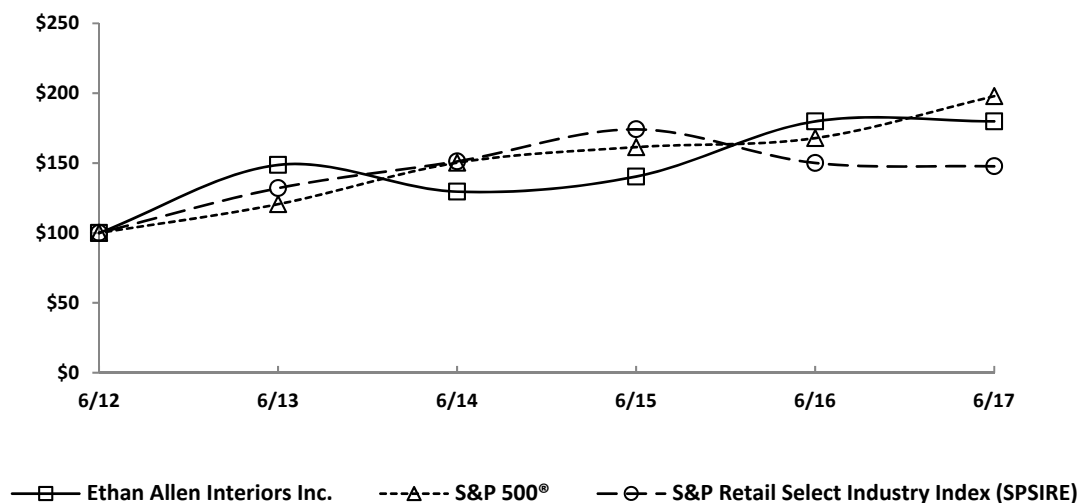
repurchase program on several separate occasions, the last of which was on April 13, 2015 when the Board of Directors increased the aggregate authorization to approximately 3,000,000 shares. There is no expiration date on the repurchase authorization and the amount and timing of future share repurchases, if any, will be determined as market and business conditions warrant.

Comparative Company Performance

The following line graph compares the cumulative total stockholder return for the Company with the S&P 500 Index, and the S&P Retail Select Industry Index (SPSIRE), assuming \$100 was invested on June 30, 2011.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Ethan Allen Interiors Inc., the S&P 500® Index,
S&P Retail Select Industry Index (SPSIRE)



*\$100 invested on June 30, 2011 in stock or index, including reinvestment of dividends.
Fiscal years ending June 30.

Source: S&P Dow Jones Indices

Item 6. Selected Financial Data

The following table presents selected financial data for the fiscal years ended June 30, 2013 through 2017 that has been derived from our consolidated financial statements. 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. Dollar amounts are in thousands except per share data.

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Fiscal Year Ended June 30,

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<u>Consolidated Operations Data</u>					
Net Sales	\$ 763,385	\$ 794,202	\$ 754,600	\$ 746,659	\$ 729,083
Cost of Sales	343,662	351,966	343,437	340,163	330,734
Selling, general and administrative expenses	<u>361,773</u>	<u>353,057</u>	<u>345,229</u>	<u>336,860</u>	<u>337,912</u>
Operating income	57,950	89,179	65,934	69,636	60,437
Interest and other expense, net	<u>955</u>	<u>1,223</u>	<u>9,251</u>	<u>7,234</u>	<u>10,263</u>
Income before income tax expense	56,995	87,956	56,683	62,402	50,174
Income tax expense (benefit)	<u>20,801</u>	<u>31,319</u>	<u>19,541</u>	<u>19,471</u>	<u>17,696</u>
Net income	<u>\$ 36,194</u>	<u>\$ 56,637</u>	<u>\$ 37,142</u>	<u>\$ 42,931</u>	<u>\$ 32,478</u>
<u>Per Share Data</u>					
Net income per basic share	\$ 1.31	\$ 2.02	\$ 1.29	\$ 1.48	\$ 1.13
Basic weighted average shares outstanding	27,679	28,072	28,874	28,918	28,864
Net income per diluted share	\$ 1.29	\$ 2.00	\$ 1.27	\$ 1.47	\$ 1.11
Diluted weighted average shares outstanding	27,958	28,324	29,182	29,276	29,239
Cash dividends per share	\$ 0.74	\$ 0.62	\$ 0.50	\$ 0.40	\$ 0.77
<u>Other Information</u>					
Depreciation and amortization	\$ 20,115	\$ 19,353	\$ 19,142	\$ 17,930	\$ 18,008
Capital expenditures and acquisitions	\$ 18,321	\$ 23,132	\$ 21,778	\$ 19,305	\$ 19,775
Working capital	\$ 116,653	\$ 124,857	\$ 130,012	\$ 169,582	\$ 127,631
Current ratio	1.92 to 1	2.01 to 1	1.92 to 1	2.25 to 1	1.96 to 1
Effective tax rate	36.5%	35.6%	34.5%	31.2%	35.3%
<u>Balance Sheet Data (at end of period)</u>					
Total assets	\$ 568,222	\$ 577,409	\$ 605,977	\$ 654,434	\$ 617,285
Total debt, including capital lease obligations	\$ 14,339	\$ 41,838	\$ 76,237	\$ 130,912	\$ 131,289
Shareholders' equity	\$ 400,896	\$ 392,202	\$ 370,535	\$ 367,467	\$ 334,357
Debt as a percentage of equity	3.6%	10.7%	20.6%	35.6%	39.3%
Debt as a percentage of capital	3.5%	9.6%	17.1%	26.3%	28.2%

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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.

Forward-Looking Statements

Management's discussion and analysis of financial condition and results of operations and other sections of this Annual Report on Form 10-K contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which represent management's beliefs and assumptions concerning future events based on information currently available to us relating to our future results. Such forward-looking statements are identified in this Annual Report on Form 10-K and in documents incorporated herein by reference by use of forward-looking words such as "anticipate", "believe", "plan", "estimate", "expect", "intend", "will", "may", "continue", "project", "target", "outlook", "forecast", "guidance", and similar expressions and the negatives of such forward-looking words. These forward-looking statements are subject to management decisions and various assumptions about future events, and are not guarantees of future performance. Actual results could differ materially from those anticipated in the forward-looking statements due to a number of risks and uncertainties including, but not limited to: competition from overseas manufacturers and domestic retailers; our anticipating or responding to changes in consumer tastes and trends in a timely manner; our ability to maintain and enhance our brand, marketing and advertising efforts and pricing strategies; changes in global and local economic conditions that may adversely affect consumer demand and spending, our manufacturing operations or sources of merchandise and international operations; changes in U.S. policy related to imported merchandise; an economic downturn; our limited number of manufacturing and logistics sites; fluctuations in the price, availability and quality of raw materials; environmental, health and safety requirements; product safety concerns; disruption to our technology infrastructure (including cyber attacks); increasing labor costs, competitive labor markets and our continued ability to retain high-quality personnel and risks of work stoppages; loss of key personnel; our ability to obtain sufficient external funding to finance our operations and growth; access to consumer credit; the effect of operating losses on our ability to pay cash dividends; 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; the effects of terrorist attacks or conflicts or wars involving the United States or its allies or trading partners; and those matters discussed in Items 1A and 7A of this Annual Report on Form 10-K and in our other SEC filings. Accordingly, actual circumstances and results could differ materially from those contemplated by the forward-looking statements.

Given the risks and uncertainties surrounding forward-looking statements, you should not place undue reliance on these statements. Many of these factors are beyond our ability to control or predict. Our forward-looking statements speak only as of the date of this Annual Report on Form 10-K. Other than as required by law, we undertake no obligation to update or revise forward-looking statements, whether as a result of new information, future events, or otherwise.

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 reasonable assumptions. 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 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; title and risk of ownership has passed to the customer; no specific performance obligations remain; product is shipped or services are provided to the customer; collectability is reasonably assured. As such, revenue recognition

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generally 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. If a shipping charge is billed to customers, this is included in revenue. 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.

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 – Goodwill and other indefinite-lived intangible assets are evaluated for impairment on an annual basis during the fourth quarter of each fiscal year, 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. When testing goodwill for impairment, we may assess qualitative factors for some or all of our reporting units to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount, including goodwill. Alternatively, we may bypass this qualitative assessment for some or all of our reporting units and determine whether the carrying value exceeds the fair value using a quantitative assessment.

The recoverability of long-lived assets is evaluated for impairment whenever events or changes in circumstances indicate that we may not be able to recover the carrying amount of an asset or asset group. Our assessment of recoverability determines 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.

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 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.

In the fourth quarter of fiscal years 2017, 2016 and 2015, the Company performed qualitative assessments of the fair value of the wholesale reporting unit and concluded that the fair value of its goodwill exceeded its carrying value. The fair value of the trade name exceeded its carrying value by a substantial margin in fiscal years 2017, 2016, and 2015. 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.

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, on a quarterly basis, 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%

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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.

Results of Operations

In this Item 7 of this Annual Report, unless otherwise noted, all comparisons are from the fiscal year ended June 30, 2017 to the prior fiscal year ended June 30, 2016 (\$ in millions except per share amounts).

A summary of our consolidated operations for the past three fiscal years is presented in the following table.

	Fiscal years ended June 30,					
	2017	%	2016	%	2015	%
Net sales	\$ 763.4	100.0%	\$ 794.2	100.0%	\$ 754.6	100.0%
Gross profit	\$ 419.7	55.0%	\$ 442.2	55.7%	\$ 411.2	54.5%
SG&A	\$ 361.8	47.4%	\$ 353.1	44.5%	\$ 345.2	45.7%
Operating income	58.0	7.6%	89.2	11.2%	65.9	8.7%
Net income	36.2	4.7%	56.6	7.1%	37.1	4.9%
Earnings per diluted share	\$ 1.29		\$ 2.00		\$ 1.27	
Net cash provided by operating activities	\$ 78.6		\$ 58.4		\$ 55.1	

A summary of changes from the preceding fiscal year are presented in the following table.

	Fiscal years ended June 30,		
	2017	2016	2015
Net sales	-3.9%	5.2%	1.1%
Operating income	-35.0%	35.3%	-5.3%
Net income	-36.1%	52.5%	-13.5%
Earnings per diluted share	-35.5%	57.5%	-13.6%
Net cash provided by operating activities	34.7%	5.9%	-8.0%

Beginning in the fall of 2014, we commenced a major transformation of our product offerings in several phases. We introduced Casual Classics during the first phase in the fall of 2014. In the spring and summer of 2015, we launched the second phase, Romantic Classics. We launched the third phase in the fall of 2015, during which we further developed Romantic Classics. We further expanded our Casual Classics with three new design projections; Buckhead introduced in June 2016; Santa Monica introduced in July 2016; and Brooklyn introduced in August 2016. These new product offerings were followed by the introduction of our Ethan Allen | Disney home line in November 2016. We believe that we are now well positioned to benefit from this major product refresh. While we implement major product introductions, such as the introductions described above, our wholesale segment experiences some disruptions in manufacturing as we change tooling and manufacturing methods, build prototypes and then ramp up production. In our retail segment, some disruption also

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occurs in our design centers as we update floor displays, and sell the remainder of our older products on clearance to make space for the new product. These disruptions may affect sales and expenses.

Our net sales decreased from the prior fiscal year, following three years of growth. While our new introductions and marketing efforts have gained traction with consumers, the retail consumer market in the United States faced a difficult year. Gross margin, while remaining at a high level historically, was below the prior year primarily due to an inventory write-down of \$6.4 million during the third quarter of fiscal 2017. Operating expenses increased as a percentage of sales, mostly due to a 16.5% increase in advertising expenses. This resulted in a net decrease in earnings per diluted share of \$0.71, which followed an increase of \$0.73 in the previous fiscal year. Net cash provided by operating activities along with operating cash enabled us to repurchase \$10.2 million of our common stock under our share repurchase program, pay down \$25.0 million of our debt earlier than scheduled, and return \$20.0 million in cash dividends to our shareholders. At June 30, 2017 we had total cash and securities of \$65.0 million, and working capital of \$116.7 million.

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

	Fiscal Year Ended June 30,		
	2017	2016	2015
Revenue:			
Wholesale segment	\$ 453.3	\$ 491.5	\$ 469.4
Retail segment	603.7	626.5	579.7
Elimination of inter-segment sales	(293.6)	(323.8)	(294.5)
Consolidated revenue	\$ 763.4	\$ 794.2	\$ 754.6
Operating income :			
Wholesale segment	\$ 53.5	\$ 74.4	\$ 67.0
Retail segment	1.2	16.5	1.7
Adjustment for inter-company profit (1)	3.3	(1.7)	(2.8)
Consolidated operating income	\$ 58.0	\$ 89.2	\$ 65.9

(1) Represents the change in wholesale profit contained in Ethan Allen operated design center inventory existing at the end of the period.

A summary by business segment of annual percentage changes from the preceding fiscal years are presented in the following tables.

	Fiscal Year Ended June 30,		
	2017	2016	2015
Wholesale segment			
Revenue	-7.8%	4.7%	3.5%
Operating Income	-28.1%	11.1%	15.9%

	Fiscal Year Ended June 30,		
	2017	2016	2015
Retail segment			
Revenue	-3.6%	8.1%	-0.2%
Comparable design center revenue	-4.6%	8.3%	0.0%
Total written orders	-0.6%	1.7%	3.9%
Comparable design center written orders	-2.5%	1.8%	4.0%
Operating Income	-92.7%	853.1%	-83.6%

Business Results:

Our revenues are composed of (i) wholesale sales to independently operated and Company operated retail design centers and (ii) retail sales of Company operated design centers. See Note 15 to our Consolidated Financial Statements for the year ended June 30, 2017 included under Item 8 of this Annual Report.

Fiscal 2017 Compared to Fiscal 2016

Consolidated revenue was \$763.4 million compared to \$794.2 million. There was a year-over-year decline in sales in both the wholesale and retail segments.

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Wholesale revenue decreased by \$38.1 million, or 7.8%, to \$453.3 million from \$491.5 million. The year-over-year decrease was attributable to lower sales to our Company operated design centers and domestic independent retailers, partly offset by an increase to our international independent design centers, primarily in China. There were 303 design centers globally as of June 30, 2017, an increase of seven. There was a net increase of two independently operated retail network locations, which included a decrease of one legacy location in the U.S. and the purchase of one independently owned location by the Company, bringing the total U.S. independent total to 48, and a net decrease of one location in China, bringing the China total to 82. Other international dealers opened five new locations. Our international net sales to independent retailers was 6.5% of our consolidated net sales compared to 5.4%.

Retail revenue from Ethan Allen operated design centers decreased by \$22.8 million, or 3.6%, to \$603.7 million from \$626.5 million. Comparable store revenue decreased 4.6%. Year-over-year, written orders for the Company operated design centers decreased 0.6% and comparable design centers written orders decreased 2.5%. Consumer spending patterns were disrupted during the fiscal year, especially around the election cycle, and negatively impacted sales.

Gross profit decreased to \$419.7 million from \$442.2 million. The \$22.5 million decrease in gross profit was attributable to decreases in both our retail and wholesale segment net sales and a write-down of inventory of \$6.4 million in the third quarter of fiscal 2017. This was partly offset by a slightly higher mix of retail net sales to consolidated net sales of 79.1% compared to the 78.9% in the prior fiscal year, and a decrease in cost of goods sold due to the net release of intercompany profit previously held in ending inventory.

Operating expenses increased \$8.7 million or 2.5% to \$361.8 million or 47.4% of net sales in fiscal 2017 from \$353.1 million or 44.5% of net sales in fiscal 2016. The increase in fiscal year 2017 expenses in absolute dollars and as a percent of net sales is primarily due to increased advertising costs, a loss on disposal of real estate in fiscal 2017 compared to a gain on real estate sales in the prior fiscal year, and an increase in retail occupancy expense associated with a net increase of five design centers, partly offset by a reduction in incentive compensation.

Operating income for the fiscal year ended June 30, 2017 totaled \$58.0 million, or 7.6% of net sales, compared to \$89.2 million, or 11.2% of net sales, in the prior fiscal year. **Wholesale operating income** for fiscal 2017 totaled \$53.5 million, or 11.8% of net sales, as compared to \$74.4 million, or 15.1% of net sales, in the prior year. **Retail operating income** was \$1.2 million, or 0.2% of sales, for fiscal 2017, compared to \$16.5 million, or 2.6% of sales, for fiscal 2016, a decrease of \$15.3 million. The decrease in consolidated operating income was primarily attributable to decreased net sales, an inventory write-down at both our wholesale and retail segments due to a decision to reduce clearance and discontinued inventory by donation, increased advertising expenses, the net impact of real estate dispositions, and an increase in retail occupancy expense, partly offset by the net release of intercompany profit previously held in ending inventory and a reduction in incentive compensation.

Interest and other related financing costs decreased \$0.4 million to \$1.2 million from \$1.6 million in the prior fiscal year. The decrease is primarily due to lower interest expense throughout fiscal 2017 due to debt repayments during fiscal 2017 including a \$25.0 million paydown on our revolving credit facility to reduce our future debt carrying costs.

Income tax expense was \$20.8 million for fiscal 2017 and \$31.3 million for fiscal 2016. Our effective tax rate for fiscal 2017 was 36.5% compared to 35.6% in fiscal 2016. The effective tax rate for both fiscal years primarily includes tax expense on that fiscal year's net income, and tax and interest expense on uncertain tax positions, partially offset by the reversal and recognition of some uncertain tax positions.

Net income for fiscal 2017 was \$36.2 million as compared to \$56.6 million in fiscal 2016. Net income per diluted share totaled \$1.29 in fiscal 2017 compared to \$2.00 per diluted share in the prior fiscal year.

Fiscal 2016 Compared to Fiscal 2015

Consolidated revenue for the fiscal year ended June 30, 2016 was \$794.2 million compared to \$754.6 million for fiscal 2015. There was year-over-year sales growth in both the wholesale and retail segments.

Wholesale revenue for fiscal 2016 increased by \$22.1 million, or 4.7%, to \$491.5 million from \$469.4 million in the prior fiscal year. The year-over-year increase was attributable to increased sales to our Company operated design centers and domestic independent retailers, partly offset by a decrease to our international independent design centers, primarily in China. There were 296 design centers globally as of June 30, 2016, a decrease by three from June 30, 2015. There was a net decrease of two independently operated retail network locations, which included a decrease of eight legacy locations in the U.S., bringing the total U.S. independent total to 50, and a net increase of eight new locations in China, bringing the China total to 83. Our

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international net sales to independent retailers was 5.4% of our consolidated net sales for the fiscal year ended June 30, 2016 compared to 7.5% the previous fiscal year.

Retail revenue from Ethan Allen operated design centers for the twelve months ended June 30, 2016 increased by \$46.8 million, or 8.1%, to \$626.5 million from \$579.7 million for the twelve months ended June 30, 2015. Comparable store revenue increased 8.5%. Year-over-year, written orders for the Company operated design centers increased 1.7% and comparable design centers written orders increased 1.8%. A higher increase in net sales relative to written orders is reflected in the 13.1% decrease in ending backlog at June 30 2016.

Gross profit for fiscal 2016 increased to \$442.2 million from \$411.2 million in fiscal 2015. The \$31.1 million increase in gross profit was attributable to increases in both our retail and wholesale segment net sales, as well as a higher mix of retail net sales to consolidated net sales in fiscal 2016 of 78.9% compared to the 76.8% in the prior fiscal year.

Operating expenses increased \$7.8 million or 2.3% to \$353.1 million or 44.5% of net sales in fiscal 2016 from \$345.2 million or 45.7% of net sales in fiscal 2015. The increase in fiscal year 2016 expenses in absolute dollars is primarily due to increased variable costs associated with our increased sales in both business segments. As a percentage of net sales, expenses decreased during fiscal 2016 as compared to fiscal 2015 primarily due to gains associated with the disposal of real estate in fiscal 2016 compared to expenses in the prior fiscal year.

Operating income for the fiscal year ended June 30, 2016 totaled \$89.2 million, or 11.2% of net sales, compared to \$65.9 million, or 8.7% of net sales, in the prior fiscal year. **Wholesale operating income** for fiscal 2016 totaled \$74.4 million, or 15.1% of net sales, as compared to \$67.0 million, or 14.3% of net sales, in the prior year. **Retail operating income** was \$16.5 million, or 2.6% of sales, for fiscal 2016, compared to \$1.7 million, or 0.3% of sales, for fiscal 2015, an increase of \$14.7 million. The increase in consolidated operating income was primarily attributable to increased net sales, and the net impact of real estate dispositions on both fiscal years as previously discussed.

Interest and other income, net was \$0.4 million in fiscal 2016 compared to an expense of \$3.3 million in fiscal 2015. The prior fiscal year included a loss on the early extinguishment of our Senior Notes in the quarter ended March 31, 2015 of \$3.7 million, which consisted of a \$3.5 million "make whole" payment, and the write-off of unamortized balances of original issue discount, deferred financing fees and derivative instruments.

Interest and other related financing costs decreased \$4.3 million to \$1.6 million from \$5.9 million in the prior fiscal year. The decrease is primarily due to lower interest expense throughout fiscal 2016 due to early extinguishment of our Senior Notes in the quarter ended March 31, 2015, as well as further debt repayments during fiscal 2016.

Income tax expense was \$31.3 million for fiscal 2016 and \$19.5 million for fiscal 2015. Our effective tax rate for fiscal 2016 was 35.6% compared to 34.5% in fiscal 2015. The effective tax rate for both fiscal years primarily includes tax expense on that fiscal year's net income, and tax and interest expense on uncertain tax positions, partially offset by the reversal and recognition of some uncertain tax positions.

Net income for fiscal 2016 was \$56.6 million as compared to \$37.1 million in fiscal 2015. Net income per diluted share totaled \$2.00 in fiscal 2016 compared to \$1.27 per diluted share in the prior fiscal year.

Liquidity and Capital Resources

At June 30, 2017, we held unrestricted cash and equivalents of \$57.7 million and restricted cash and investments of \$7.3 million. At June 30, 2016, we held unrestricted cash and cash equivalents of \$52.7 million and restricted cash and investments of \$7.8 million. During fiscal 2017 we used cash to further pay down a portion of our debt and for common share repurchases. Our principal sources of liquidity include cash and cash equivalents, marketable securities, cash flow from operations, amounts available under our credit facility, and other borrowings.

For a detailed discussion of our debt obligations and timing of our related cash payments see Note 6 to the Consolidated Financial Statements included under Item 8 of this Annual Report.

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):

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

	<u>Fiscal Years Ended June 30,</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Cash provided by (used in) operating activities</u>			
Net income plus depreciation and amortization	\$ 56.3	\$ 76.0	\$ 56.3
Working capital items	14.5	(19.3)	(15.2)
Other operating activities	<u>7.8</u>	<u>1.7</u>	<u>14.0</u>
Total provided by operating activities	<u>\$ 78.6</u>	<u>\$ 58.4</u>	<u>\$ 55.1</u>
<u>Cash provided by (used in) investing activities</u>			
Capital expenditures & acquisitions	\$ (18.3)	\$ (23.1)	\$ (21.8)
Net sales of marketable securities	-	2.2	15.4
Other investing activities	<u>1.9</u>	<u>8.4</u>	<u>9.8</u>
Total provided (used) in investing activities	<u>\$ (16.4)</u>	<u>\$ (12.5)</u>	<u>\$ 3.4</u>
<u>Cash provided by (used in) financing activities</u>			
Payments of long-term debt and capital lease obligations	\$ (28.4)	\$ (34.8)	\$ (133.7)
Borrowings from revolving credit and term loan facilities	\$ -	\$ -	\$ 75.0
Purchases and retirements of company stock	(10.2)	(19.3)	(17.6)
Payment of cash dividends	(20.0)	(16.6)	(13.3)
Other financing activities	<u>1.3</u>	<u>1.6</u>	<u>(1.4)</u>
Total used in financing activities	<u>\$ (57.3)</u>	<u>\$ (69.1)</u>	<u>\$ (91.0)</u>

Cash Provided By (Used in) Operating Activities

In fiscal 2017 cash of \$78.6 million was provided by operating activities, an increase of \$20.2 million from \$58.4 million in the prior year comparable period. Working capital items were a \$14.5 million source of cash in the current year and a \$19.3 million use of cash in the prior year, with a net difference of \$33.8 million. Most of the working capital difference was due to an Inventory decrease of \$13.5 million in the current year compared to a \$10.0 million use of cash in the prior year. Most of the current year inventory decrease was due to a \$6.4 million write-down of inventory discussed previously in Business Results. Net income plus depreciation and amortization decreased \$19.7 million. Working capital items consist of current assets (accounts receivable, inventories, prepaid and other current assets) less current liabilities (customer deposits, payables, and accrued expenses and other current liabilities).

Cash Provided By (Used in) Investing Activities

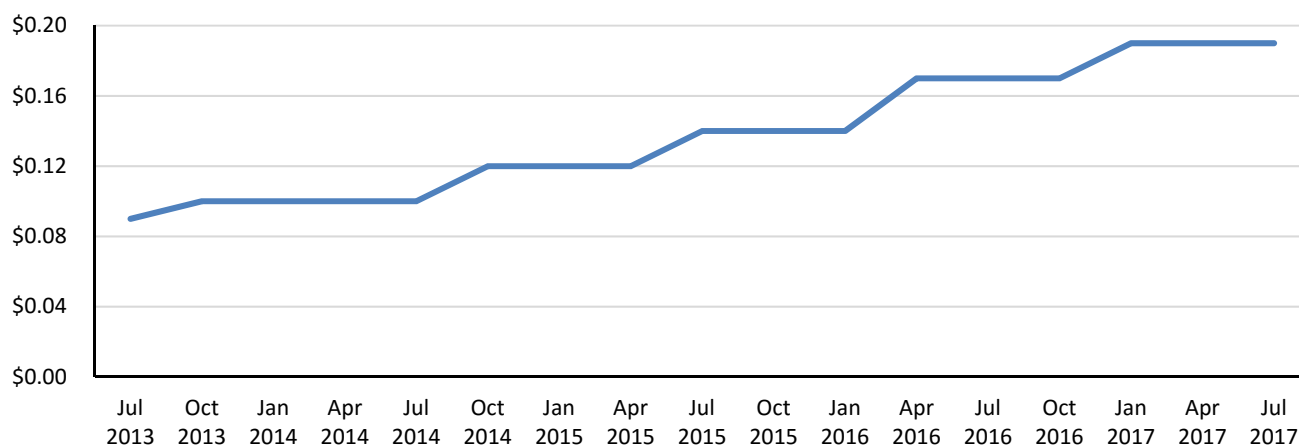
In fiscal 2017, cash of \$16.4 million was used in investing activities, an increase in cash used of \$3.9 million from \$12.5 million which was used during the prior year comparable period. More cash was used during fiscal 2017 primarily due to less proceeds from the sale of real estate in fiscal 2017 than in the prior fiscal year, and decreased current fiscal year capital expenditures. We anticipate that cash from operations will be sufficient to fund future capital expenditures in the near and longer term.

Cash Provided By (Used in) Financing Activities

In fiscal 2017, \$57.3 million was used in financing activities, a decrease of \$11.8 million from \$69.1 million in the prior year comparable period. During fiscal 2017 we paid \$25 million on our revolver, \$3.4 million in scheduled payments on debt and capital leases, and utilized \$10.2 million to repurchase 357,363 shares at a weighted average cost of \$28.67 per share. At June 30, 2017 we have remaining Board authorization to repurchase 1.4 million shares. Cash dividends have been paid every quarter since July 1996. The following chart shows our dividend history by payment date from July 2013 to the present.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Dividends per share



We expect to continue to declare quarterly dividends for the foreseeable future, business conditions permitting.

The following table summarizes, as of June 30, 2017, the timing of cash payments related to our outstanding contractual obligations (in millions):

	<u>Total</u>	<u>Less than 1 Year</u>	<u>1-3 Years</u>	<u>4-5 Years</u>	<u>More than 5 Years</u>
Long-term debt obligations:					
Debt maturities	\$ 14.9	\$ 3.0	\$ 11.8	\$ 0.1	\$ -
Contractual interest	0.8	0.4	0.4	-	-
Operating lease obligations	197.1	34.9	57.8	44.6	59.8
Letters of credit	0.1	0.1	-	-	-
Purchase obligations (1)	-	-	-	-	-
Other long-term liabilities	<u>0.2</u>	<u>-</u>	<u>-</u>	<u>0.0</u>	<u>0.2</u>
Total contractual obligations	<u>\$ 213.2</u>	<u>\$ 38.4</u>	<u>\$ 70.0</u>	<u>\$ 44.8</u>	<u>\$ 60.0</u>

(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, 2017, our open purchase orders with respect to such goods and services totaled approximately \$36 million.

Further discussion of our contractual obligations associated with outstanding debt and lease arrangements can be found in Notes 6 and 7, 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, 2017, we had working capital of \$116.7 million compared to \$124.9 million at June 30, 2016, a decrease of \$8.2 million and a current ratio of 1.92 to 1 at June 30, 2017 and 2.0 to 1 at June 30, 2016. 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.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

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 both June 30, 2017 and June 30, 2016 was for our consumer credit program described below.

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") which was last amended effective January 2014. 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. The Program Agreement will terminate on July 31, 2019, but includes a provision for automatic one-year renewals unless either party gives notice of termination. 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 the Program Agreement also contain a right for the financial services provider to demand from the Company collateral at a variable rate based on the volume of program sales if the Company does not meet certain covenants. At June 30 of 2017 and 2016, no collateral was required under the Program Agreement.

Product Warranties

Our products, including our case goods, upholstery and home accents, generally carry explicit product warranties that extend up to seven years and are provided based on terms that are generally accepted in the industry. All 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, 2017 and 2016, the Company's product warranty liability totaled \$1.3 million and \$1.2 million, respectively.

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 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

We continue to strengthen our vertically integrated structure from concept of idea, to engineering, to manufacturing, to retail and logistics. We intend to maintain strong manufacturing capabilities in North America, which we believe is a long-term competitive advantage that will allow us to advance our objectives of maintaining fast order delivery, exceptional quality

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and improving capacity to ship stocked and custom made-to-order items more quickly, which in turn will allow us to grow our business.

Our network of professionally trained interior design professionals differentiates us significantly from our competitors. We continue to strengthen the level of service, professionalism, and interior design competence, as well as to improve the efficiency of our retail operations. We believe that over time, we will continue to benefit from (i) continuous repositioning of our retail network, (ii) frequent new product introductions, (iii) new and innovative marketing promotions and effective use of targeted advertising media, and (iv) continued use of the latest technology combined with personal service from our interior design professionals.

Beginning in the fall of 2014 and through the fall of 2016, we completed a major transformation of our product offerings, which refreshed over 70% of our entire line of products. During the third quarter of fiscal 2017 we expanded the reach of our Ethan Allen | Disney product program by selling a curated selection on Disneystore.com, we were awarded a blanket purchase agreement for the Department of State "Worldwide Residential Furniture Program" and entered into an agreement with Amazon to sell products through the Amazon marketplace. Now that we have completed this major transformation, we believe that we are well positioned to leverage all the actions we have taken.

We expect the home furnishings industry to remain extremely competitive with respect to both the sourcing of products and the wholesale and retail sale of those products for the foreseeable future. Domestic manufacturers continue to face pricing pressures because of the lower manufacturing costs on imports, particularly from Asia. While we also utilize overseas sourcing for approximately one quarter of our products, we choose to differentiate ourselves by maintaining a substantial North American manufacturing base, the majority of which is located in the United States. This structure enables us to leverage our vertically integrated structure to our advantage. We continue to believe that a balanced approach to product sourcing, which includes our own North American manufacturing of about 75% of our product offerings coupled with the import of other selected products, provides the greatest degree of flexibility and shorter lead times and is the most effective approach to ensuring that acceptable levels of quality, service and value are attained.

We therefore remain cautiously optimistic about our performance due to the many strong programs already in place and others we currently plan to introduce in the coming months. Our retail strategy involves (i) a continued focus on providing relevant product offerings, a wide array of product solutions, and superior interior design solutions through our large staff of interior design professionals, (ii) continuing strong advertising and marketing campaigns to get our message across and to continue broadening our customer base, (iii) the opening of new or relocated design centers in more prominent locations, and encouraging independent retailers to do the same, (iv) leveraging the use of technology and personal service within our retail network and online through www.ethanallen.com, and (v) 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 May 2014, the Financial Accounting Standards Board (the "FASB") issued ASU 2014-09, *Revenue from Contracts with Customers*. This ASU provides a framework for revenue recognition that replaces most existing GAAP revenue recognition guidance when it becomes effective. We have an option to use either a retrospective approach or a cumulative effect adjustment approach to implement the guidance. The new standard is effective for us on July 1, 2018, with early adoption permitted. We are currently conducting a comprehensive review of our revenue streams and contracts as they relate to this guidance to identify potential differences that would result from applying the new requirements. While we are still assessing the overall impact this guidance will have on our consolidated financial statements and financial statement disclosures, based on the work performed to date, we do not believe that the adoption will have a material impact on our consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*, which states that inventory should be measured at the lower of cost and net realizable value. Net realizable value is defined as estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The new guidance is effective for the Company on July 1, 2017. The new guidance should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. We plan on adopting effective July 1, 2017. We do not believe that the adoption will have a material impact on our consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*, which requires the Company to present all deferred tax assets and liabilities as noncurrent. This pronouncement is effective for the Company on July 1, 2017, and early adoption is permitted. We plan on adopting effective July 1, 2017. At June 30, 2017 and 2016 we had net

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current deferred tax assets of \$3.9 million and \$3.2 million respectively which would have been classified as noncurrent under the new standard.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which is intended to improve financial reporting about leasing transactions. The ASU will require lessees that lease assets with lease terms of more than twelve months to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Lessors will remain largely unchanged from current GAAP. In addition, the ASU will require disclosures to help investors and other financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. This pronouncement is effective for the Company on July 1, 2019, and early adoption is permitted. The Company is currently evaluating the impact on our consolidated financial statements. We plan on adopting effective July 1, 2019.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which amends ASC Topic 718, Stock Compensation. The objective of this amendment is part of the FASB's Simplification Initiative as it applies to several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This pronouncement is effective for the Company on July 1, 2017, and allows for prospective, retrospective or modified retrospective adoption, depending on the area covered in the update, with early adoption permitted. We plan on adopting effective July 1, 2017. For the fiscal years ended June 30, 2017 and 2016, the Company recorded a credit to additional paid in capital of \$0.1 million and \$1.0 million respectively, that under the new standard would have been recognized in income. Excess tax benefits were not material in either fiscal years 2017, 2016 or 2015.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. It is intended to reduce diversity in the presentation of restricted cash and restricted cash equivalents in the statement. The statement requires that restricted cash and restricted cash equivalents be included as components of total cash and cash equivalents as presented on the statement of cash flows. The Company currently does not include restricted cash as a component of cash and equivalents as presented on the statement of cash flows. The new guidance is effective for the Company on July 1, 2018, with early adoption permitted. The Company is currently evaluating the impact on our consolidated financial statements. We plan on adopting effective July 1, 2018.

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, 2017, we had \$13.8 million of floating-rate debt obligations outstanding under our Facility. We currently do not engage in any interest rate hedging activity and we have no intention of doing so in the foreseeable future. Based on the average interest rate of the loans under the Facility during the quarter ended June 30, 2017, and to the extent that borrowings were outstanding, a 10% change in the interest rate would not have a material effect on our consolidated results of operations and financial condition.

Foreign currency exchange risk is primarily limited to our operation of Ethan Allen operated retail design centers located in Canada, one distribution center in Belgium, and our plants in Mexico and Honduras, 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 moderate relative to peers in the industry.

Item 8. Financial Statements and Supplementary Data

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

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

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, 2017 and 2016, and the related consolidated statements of comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended June 30, 2017. We also have audited the Company's internal control over financial reporting as of June 30, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* 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, 2017 and 2016, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2017, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by COSO.

/s/ KPMG LLP

August 2, 2017

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

**Consolidated Balance Sheets
June 30, 2017 and 2016
(In thousands, except share data)**

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 57,701	\$ 52,659
Accounts receivable, less allowance for doubtful accounts of \$1,667 at June 30, 2017 and \$1,639 at June 30, 2016	12,293	9,467
Inventories	149,483	162,323
Prepaid expenses and other current assets	<u>23,621</u>	<u>23,755</u>
Total current assets	243,098	248,204
Property, plant and equipment, net	270,198	273,615
Goodwill and other intangible assets	45,128	45,128
Restricted cash and investments	7,330	7,820
Other assets	<u>2,468</u>	<u>2,642</u>
Total assets	<u>\$ 568,222</u>	<u>\$ 577,409</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 2,731	\$ 3,001
Customer deposits	62,960	60,958
Accounts payable	16,961	15,437
Accrued compensation and benefits	20,352	22,067
Accrued expenses and other current liabilities	<u>23,441</u>	<u>21,884</u>
Total current liabilities	126,445	123,347
Long-term debt	11,608	38,837
Other long-term liabilities	<u>29,273</u>	<u>23,023</u>
Total liabilities	<u>167,326</u>	<u>185,207</u>
Shareholders' equity:		
Common stock, par value \$0.01; 150,000,000 shares authorized; 48,979,994 shares issued at June 30, 2017 and 48,921,544 shares issued at June 30, 2016	490	489
Preferred stock, par value \$0.01; 1,055,000 shares authorized; none issued	-	-
Additional paid-in-capital	377,550	374,972
Less: Treasury stock (at cost), 21,532,779 shares at June 30, 2017 and 21,175,416 shares at June 30, 2016	(635,179)	(624,932)
Retained earnings	661,976	646,315
Accumulated other comprehensive income	<u>(4,131)</u>	<u>(4,846)</u>
Total Ethan Allen Interiors Inc. shareholders' equity	400,706	391,998
Noncontrolling interests	<u>190</u>	<u>204</u>
Total shareholders' equity	<u>400,896</u>	<u>392,202</u>
Total liabilities and shareholders' equity	<u>\$ 568,222</u>	<u>\$ 577,409</u>

See accompanying notes to consolidated financial statements.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

**Consolidated Statements of Comprehensive Income
For Years Ended June 30, 2017, 2016, and 2015
(In thousands, except share data)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net sales	\$ 763,385	\$ 794,202	\$ 754,600
Cost of sales	<u>343,662</u>	<u>351,966</u>	<u>343,437</u>
Gross profit	419,723	442,236	411,163
Selling, general and administrative expenses	<u>361,773</u>	<u>353,057</u>	<u>345,229</u>
Operating income	57,950	89,179	65,934
Interest and other income (expense)	268	395	(3,333)
Interest and other related financing costs	<u>1,223</u>	<u>1,618</u>	<u>5,918</u>
Income before income taxes	56,995	87,956	56,683
Income tax expense	<u>20,801</u>	<u>31,319</u>	<u>19,541</u>
Net income	<u>\$ 36,194</u>	<u>\$ 56,637</u>	<u>\$ 37,142</u>
 <u>Per share data:</u>			
Net income per basic share	<u>\$ 1.31</u>	<u>\$ 2.02</u>	<u>\$ 1.29</u>
Basic weighted average common shares	27,679	28,072	28,874
Net income per diluted share	<u>\$ 1.29</u>	<u>\$ 2.00</u>	<u>\$ 1.27</u>
Diluted weighted average common shares	27,958	28,324	29,182
Dividends declared per common share	<u>\$ 0.74</u>	<u>\$ 0.62</u>	<u>\$ 0.50</u>
 Comprehensive income:			
Net income	\$ 36,194	\$ 56,637	\$ 37,142
Other comprehensive income			
Currency translation adjustment	715	(2,208)	(3,308)
Other	<u>(14)</u>	<u>27</u>	<u>78</u>
Other comprehensive income (loss) net of tax	<u>701</u>	<u>(2,181)</u>	<u>(3,230)</u>
Comprehensive income	<u>\$ 36,895</u>	<u>\$ 54,456</u>	<u>\$ 33,912</u>

See accompanying notes to consolidated financial statements.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
For Years Ended June 30, 2017, 2016, and 2015
(In thousands)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating activities:			
Net income	\$ 36,194	\$ 56,637	\$ 37,142
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	20,115	19,353	19,142
Compensation expense related to share-based payment awards	1,259	2,356	1,236
Provision for deferred income taxes	3,507	671	3,923
Restructuring and impairment charge	-	-	784
Loss (gain) on disposal of property, plant and equipment	1,033	(2,267)	4,180
Other	(6)	(1,295)	3,606
Change in operating assets and liabilities, net of effects of acquired businesses:			
Accounts receivable	(2,826)	2,926	(559)
Inventories	13,507	(9,982)	(5,036)
Prepaid and other current assets	1,010	5,113	(9,628)
Customer deposits	1,883	(7,275)	7,517
Accounts payable	1,524	(3,509)	(5,349)
Accrued expenses and other current liabilities	(547)	(6,550)	(2,113)
Other assets and liabilities	<u>1,980</u>	<u>2,191</u>	<u>261</u>
Net cash provided by operating activities	<u>78,633</u>	<u>58,369</u>	<u>55,106</u>
Investing activities:			
Proceeds from the disposal of property, plant & equipment	1,273	8,073	9,103
Change in restricted cash and investments	490	190	497
Capital expenditures	(17,645)	(22,967)	(19,787)
Acquisitions	(676)	(165)	(1,991)
Sales of marketable securities	-	2,150	15,430
Other investing activities	<u>175</u>	<u>193</u>	<u>176</u>
Net cash provided by (used in) investing activities	<u>(16,383)</u>	<u>(12,526)</u>	<u>3,428</u>
Financing activities:			
Borrowings from revolving credit and term loan facilities	-	-	75,000
Payments on long-term debt and capital lease obligations	(28,401)	(34,840)	(133,710)
Purchases and retirements of company stock	(10,246)	(19,346)	(17,552)
Payment of cash dividends	(20,031)	(16,646)	(13,348)
Other financing activities	<u>1,335</u>	<u>1,718</u>	<u>(1,353)</u>
Net cash used in financing activities	<u>(57,343)</u>	<u>(69,114)</u>	<u>(90,963)</u>
Effect of exchange rate changes on cash	<u>135</u>	<u>(252)</u>	<u>(565)</u>
Net increase (decrease) in cash & cash equivalents	5,042	(23,523)	(32,994)
Cash & cash equivalents - beginning of year	<u>52,659</u>	<u>76,182</u>	<u>109,176</u>
Cash & cash equivalents - end of year	<u>\$ 57,701</u>	<u>\$ 52,659</u>	<u>\$ 76,182</u>
<u>Supplemental cash flow information:</u>			
Income taxes paid	\$ 15,074	\$ 29,003	\$ 18,250
Interest paid	\$ 936	\$ 1,352	\$ 7,181
Non-cash capital lease obligations incurred	\$ 613	\$ -	\$ 1,700

See accompanying notes to consolidated financial statements.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

**Consolidated Statements of Shareholders' Equity
For Years Ended June 30, 2017, 2016, and 2015
(In thousands, except share data)**

	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Retained Earnings	Non- Controlling Interests	Total
Balance at June 30, 2014	486	365,733	(584,041)	642	584,395	252	367,467
Stock issued on share-based awards	3	4,117	-	-	-	-	4,120
Compensation expense associated with share-based awards	-	1,236	-	-	-	-	1,236
Tax benefit associated with exercise of share based awards	-	(172)	-	-	-	-	(172)
Purchase/retirement of company stock	-	-	(21,545)	-	-	-	(21,545)
Dividends declared on common stock	-	-	-	-	(14,458)	-	(14,458)
Capital distribution	-	-	-	-	-	(25)	(25)
Comprehensive income (loss)	-	-	-	(3,280)	37,142	50	33,912
Balance at June 30, 2015	489	370,914	(605,586)	(2,638)	607,079	277	370,535
Stock issued on share-based awards	-	734	-	-	-	-	734
Compensation expense associated with share-based awards	-	2,356	-	-	-	-	2,356
Tax benefit associated with exercise of share based awards	-	968	-	-	-	-	968
Purchase/retirement of company stock	-	-	(19,346)	-	-	-	(19,346)
Dividends declared on common stock	-	-	-	-	(17,401)	-	(17,401)
Capital distribution	-	-	-	-	-	(100)	(100)
Comprehensive income (loss)	-	-	-	(2,208)	56,637	27	54,456
Balance at June 30, 2016	489	374,972	(624,932)	(4,846)	646,315	204	392,202
Stock issued on share-based awards	1	1,199	-	-	-	-	1,200
Compensation expense associated with share-based awards	-	1,259	-	-	-	-	1,259
Tax benefit associated with exercise of share based awards	-	120	-	-	-	-	120
Purchase/retirement of company stock	-	-	(10,247)	-	-	-	(10,247)
Dividends declared on common stock	-	-	-	-	(20,533)	-	(20,533)
Capital distribution	-	-	-	-	-	-	-
Comprehensive income (loss)	-	-	-	715	36,194	(14)	36,895
Balance at June 30, 2017	<u>\$ 490</u>	<u>\$ 377,550</u>	<u>\$ (635,179)</u>	<u>\$ (4,131)</u>	<u>\$ 661,976</u>	<u>\$ 190</u>	<u>\$ 400,896</u>

See accompanying notes to consolidated financial statements.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

June 30, 2017, 2016 and 2015

(1) Summary of Significant Accounting Policies

Basis of Presentation

The following is a summary of significant accounting policies of Ethan Allen Interiors Inc., and its wholly-owned subsidiaries (collectively "We," "Us," "Our," "Ethan Allen" or the "Company"). All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements. Our consolidated financial statements also include the accounts of an entity in which we are a majority shareholder with the power to direct the activities that most significantly impact the entity's performance. Noncontrolling interest amounts in the entity are immaterial and included in the Consolidated Statement of Comprehensive Income within interest and other income, net.

Nature of Operations

We are a leading manufacturer and retailer of quality home furnishings and accents, offering complimentary interior design service to our clients and sell a full range of furniture products and decorative accents. We sell our products through one of the country's largest home furnishing retail networks and at June 30, 2017 there were a total of 303 design centers in our retail network, of which 148 are Company operated and 155 are independently operated. Nearly all our Company operated retail design centers are located in the United States, with the remaining Company operated design centers located in Canada. The majority of the independently operated design centers are in Asia, with the remaining independently operated design centers located throughout the United States, the Middle East and Europe. We own and operate nine manufacturing facilities including six manufacturing plants and one sawmill in the United States and one manufacturing plant in Mexico and one in Honduras.

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. Because of 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 and impairment analyses 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.

Reclassifications

Certain reclassifications have been made to prior years' financial statements to conform to the current year's presentation. These changes were made for disclosure purposes only and did not have any impact on previously reported results.

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).

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.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

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. Several 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.

Impairment of Long-Lived Assets and Goodwill

Goodwill and other indefinite-lived intangible assets are evaluated for impairment on an annual basis during the fourth quarter of each fiscal year, 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. When testing goodwill for impairment, we may assess qualitative factors for some or all of our reporting units to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount, including goodwill. Alternatively, we may bypass this qualitative assessment for some or all of our reporting units and determine whether the carrying value exceeds the fair value using a quantitative assessment, as described below.

The recoverability of long-lived assets is evaluated for impairment whenever events or changes in circumstances indicate that we may not be able to recover the carrying amount of an asset or asset group. Our assessment of recoverability determines 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.

To evaluate goodwill using a quantitative assessment, 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 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.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Financial Instruments

Because of 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. Substantially all our long-term debt at both June 30, 2017 and 2016 consists of our term loan and revolving credit facility. The estimated fair value is equal to the carrying value on those dates.

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. A valuation allowance must be established for deferred tax assets when it is more likely than not that the assets will not be realized.

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. Most 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 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; title and risk of ownership has passed to the customer; no specific performance obligations remain; product is shipped or services are provided to the customer; collectability is reasonably assured. As such, revenue recognition generally 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. If shipping is billed to customers, this is included in revenue. 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.

Shipping and Handling Costs

Our practice has been to sell our products at the same delivered cost to all retailers nationwide, regardless of shipping point. Costs incurred by the Company to deliver finished goods are expensed and recorded in selling, general and administrative expenses. Shipping and handling costs amounted to \$71.3 million in fiscal year 2017, \$71.7 million for fiscal 2016 and \$67.3 million in fiscal 2015.

Advertising Costs

Advertising costs are expensed when first aired or distributed. Our total advertising costs were \$39.7 million in fiscal year 2017, \$34.1 million in fiscal year 2016 and \$31.8 million in fiscal year 2015. These amounts include advertising media expenses, outside and inside agency expenses, certain website related fees and photo and video production. Fiscal 2016 and 2015 amounts include reclassifications to conform to the current year presentation. Prepaid advertising costs at June 30, 2017 totaled \$1.5 million compared to \$2.0 million at June 30, 2016.

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 9 and 10). Certain unvested share-based payment awards are participating securities because they contain rights to receive non-forfeitable dividends (if paid). The earnings available to participating securities under the two-class method of computing earnings per share is insignificant.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

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. We estimate, as of the date of grant, the fair value of restricted stock units awarded using a discounted cash flow model which requires management to make certain assumptions with respect to model inputs including anticipated future dividends not paid during the restriction period, and a discount for lack of marketability for a one-year holding period after vesting.

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 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.

Recently Adopted Accounting Pronouncements

There were no accounting pronouncements adopted in the fiscal years ended June 30, 2017 or 2016 that had a material effect on our consolidated financial statements or financial statement disclosures.

(2) Business Acquisitions

From time to time the Company acquires design centers from its independent retailers in arms length transactions. There were no material acquisitions completed during the three fiscal years ended June 30, 2017, 2016 and 2015 respectively.

(3) Inventories

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

	<u>2017</u>	<u>2016</u>
Finished goods	\$ 117,388	\$ 129,627
Work in process	10,638	9,497
Raw materials	26,269	27,554
Valuation allowance	<u>(4,812)</u>	<u>(4,355)</u>
Inventories	<u>\$ 149,483</u>	<u>\$ 162,323</u>

(4) Property, Plant and Equipment

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

	<u>2017</u>	<u>2016</u>
Land and improvements	\$ 79,200	\$ 80,002
Building and improvements	400,246	392,196
Machinery and equipment	<u>125,773</u>	<u>126,066</u>
Property, plant and equipment, gross	605,219	598,264
Less: accumulated depreciation and amortization	<u>(335,021)</u>	<u>(324,649)</u>
Property, plant and equipment, net	<u>\$ 270,198</u>	<u>\$ 273,615</u>

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

(5) Goodwill and Other Intangible Assets

At both June 30, 2017 and 2016, we had \$25.4 million of goodwill, and \$19.7 million of other indefinite-lived intangible assets consisting of Ethan Allen trade names, all of which is in our wholesale segment.

In the fourth quarter of fiscal years 2017, 2016, and 2015, the Company performed qualitative assessments of the fair value of the wholesale reporting unit and concluded it is more likely than not that the fair value of its goodwill exceeded its carrying value. In fiscal year 2011 the Company performed a quantitative assessment and determined the fair value of its wholesale reporting unit exceeded its carrying value by a substantial margin. The fair value of the trade name exceeded its carrying value by a substantial margin in fiscal years 2017, 2016 and 2015. To calculate fair value of these assets, management relies on estimates and assumptions which by their nature have varying degrees of uncertainty. 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.

(6) Borrowings

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

	June 30, 2017	June 30, 2016
Revolving Credit Facility due 10/21/2019	\$ -	\$ 25,000
Term Loan due 10/21/2019	13,833	16,167
Capital leases	<u>1,085</u>	<u>1,560</u>
Total debt obligations	14,918	42,727
Unamortized debt issuance costs	<u>(579)</u>	<u>(889)</u>
Total debt	14,339	41,838
Less current maturities	<u>2,731</u>	<u>3,001</u>
Total long-term	<u>\$ 11,608</u>	<u>\$ 38,837</u>

The Company entered into a five year, \$150 million senior secured revolving credit and term loan facility on October 21, 2014, as amended (the "Facility"). The Facility, which expires on October 21, 2019, provides a term loan of up to \$35 million and a revolving credit line of up to \$115 million, subject to borrowing base availability. We incurred financing costs of \$1.5 million under the Facility, which are being amortized by the interest method, over the remaining life of the Facility.

At the Company's option, revolving loans under the Facility bear interest, based on the average availability, at an annual rate of either (a) the London Interbank Offered rate ("LIBOR") plus 1.5% to 1.75%, or (b) the higher of (i) the prime rate, (ii) the federal funds effective rate plus 0.50%, or (iii) LIBOR plus 1.0% plus in each case 0.5% to 0.75%. At June 30, 2017 the annual interest rate in effect on the revolving loan was 2.5625%.

At the Company's option, term loans under the Facility bear interest, based on the Company's rent adjusted leverage ratio, at an annual rate of either (a) LIBOR plus 1.75% to 2.25%, or (b) the higher of (i) the prime rate, (ii) the federal funds effective rate plus 0.50%, or (iii) LIBOR plus 1.0% plus in each case 0.75% to 1.25%. At June 30, 2017 the annual interest rate in effect on the term loan was 3.0%.

The Company pays a commitment fee of 0.15% to 0.25% per annum on the unused portion of the Facility, and fees on issued letters of credit at an annual rate of 1.5% to 1.75% based on the average availability. Certain payments are restricted if the availability under the revolving credit line falls below 20% of the total revolving credit line, and the Company is subject to pro forma compliance with the fixed charge coverage ratio if applicable.

Quarterly installments of principal on the term loan are payable based on a straight line 15-year amortization period, with the balance due at maturity. In fiscal 2017 we repaid \$25.0 million of the revolving credit facility with excess operating cash. The Company does not expect to repay in advance any additional portion of the Facility within the next year.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

The Facility is secured by all property owned, leased or operated by the Company in the United States and includes certain 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 and share repurchases); sell certain assets; and make investments.

The Facility includes a covenant that requires the Company to maintain a minimum fixed charge coverage ratio of 1.1 to 1.0 at all times unless the outstanding term loans are less than \$17.5 million and the fixed charge coverage ratio equals or exceeds 1.25 to 1.0, in which case the fixed charge coverage ratio ceases to apply and thereafter is only triggered if average monthly availability is less than 15% of the amount of the revolving credit line. The Company has met the exemption conditions and is currently exempt from the fixed charge coverage ratio covenant.

The Company intends to use the Facility for working capital and general corporate purposes, including dividend payments and share repurchases. At June 30, 2017 and June 30, 2016, there was \$0.1 million and \$0.2 million respectively, of standby letters of credit outstanding under the Facility. Total availability under the Facility was \$114.9 million at June 30, 2017 and \$89.8 million at June 30, 2016.

At both June 30, 2017 and June 30, 2016, we were in compliance with all covenants of under the facility.

The weighted-average interest rate applicable under our outstanding debt obligations for each of the last three fiscal years were as follows:

	Fiscal Year Ended June 30,		
	2017	2016	2015
Weighted-average interest rate	<u>2.4%</u>	<u>2.0%</u>	<u>4.8%</u>

Aggregate scheduled maturities of our debt obligations for each of the five fiscal years subsequent to June 30, 2017, and thereafter are as follows (in thousands):

<u>Fiscal Year Ended June 30</u>	
2018	2,999
2019	2,518
2020	9,294
2021	66
2022	41
Subsequent to 2022	-
Total scheduled debt payments	<u>\$ 14,918</u>

(7) Leases

We lease real property and equipment under various operating lease agreements expiring at various times through 2039. 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, 2017, and thereafter are shown in the table below. Also shown are minimum future rentals from subleases, which will partially offset lease payments in the aggregate (in thousands):

<u>Fiscal Year Ended June 30,</u>	Minimum Future Lease Payments	Minimum Future Sublease Rentals
2018	\$ 34,901	\$ 2,012
2019	31,157	1,469
2020	26,610	965
2021	24,118	776
2022	20,526	657
Subsequent to 2022	<u>59,804</u>	<u>152</u>
Total	<u>\$ 197,116</u>	<u>\$ 6,031</u>

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Basic rentals under operating leases	\$ 33,033	\$ 31,692	\$ 31,220
Contingent rentals under operating leases	<u>142</u>	<u>180</u>	<u>160</u>
Basic and contingent rentals	33,175	31,872	31,380
Less: sublease rent	<u>(1,824)</u>	<u>(1,964)</u>	<u>(3,062)</u>
Total rent expense	<u>\$ 31,351</u>	<u>\$ 29,908</u>	<u>\$ 28,318</u>

Deferred rent credits and deferred lease incentives are reflected in the Consolidated Balance Sheets and are amortized over the respective underlying lease terms on a straight-line basis as a reduction of rent expense. The amounts for the past two fiscal years are as follows:

	<u>2017</u>	<u>2016</u>
Deferred rent credits	\$ 13,876	\$ 13,003
Deferred lease incentives	\$ 5,238	\$ 4,538

(8) Shareholders' Equity

Our authorized capital stock consists of 150,000,000 shares of Common Stock, par value \$.01 per share, and 1,055,000 shares of Preferred Stock, par value \$.01 per share. The Board of Directors may provide for the issuance of all or any shares of Preferred Stock in one or more classes or series, and to fix for each such class or series such voting powers, full or limited, or no voting powers, and such distinctive designations, preferences and relative, participating, optional or other special rights and such qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolution or resolutions adopted by the Board of Directors providing for the issuance of such class or series and as may be permitted by the General Corporation Law of the State of Delaware. As of June 30, 2017 and 2016, there were no shares of Preferred Stock issued or outstanding.

Share Repurchase Program

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. After that date, the Board of Directors increased the aggregate authorization under the repurchase program on several separate occasions, the last of which was on April 13, 2015 when the Board of Directors increased the aggregate authorization to approximately 3,000,000 shares. There is no expiration date on the repurchase authorization and the amount and timing of future share repurchases, if any, will be determined as market and business conditions warrant. As of June 30, 2017 we had a remaining Board authorization to repurchase 1.4 million shares.

During the past three fiscal years, we repurchased the following shares of our common stock (trade date basis):

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Common shares repurchased	357,363	697,799	645,831
Cost to repurchase common shares	\$ 10,246,302	\$ 19,346,104	\$ 16,469,725
Average price per share	\$ 28.67	\$ 27.72	\$ 25.50

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 our common stock repurchases are recorded as treasury stock and result in a reduction of shareholders' equity.

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(9) Earnings per Share

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Weighted average shares of common stock outstanding for basic calculation	27,679	28,072	28,874
Effect of dilutive stock options and other share-based awards	<u>279</u>	<u>252</u>	<u>308</u>
Weighted average shares of common stock outstanding adjusted for dilution calculation	<u><u>27,958</u></u>	<u><u>28,324</u></u>	<u><u>29,182</u></u>

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 2017, 2016 and 2015, stock options and share based awards of 379,350, 460,155 and 591,058, respectively, have been excluded.

(10) Share-Based Compensation

For the twelve months ended June 30, 2017, 2016, and 2015, share-based compensation expense totaled \$1.3 million, \$2.4 million, and \$1.2 million respectively. These amounts have been included in the Consolidated Statements of Comprehensive Income within selling, general and administrative expenses. During the twelve months ended June 30, 2017, 2016, and 2015, we recognized related tax benefits associated with our share-based compensation arrangements totaling \$0.5 million, \$0.8 million and \$0.5 million, respectively (before valuation allowances). Such amounts have been included in the Consolidated Statements of Comprehensive Income within income tax expense.

At June 30, 2017, we had 1,263,530 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. The Plan provides for the grant of non-compensatory stock options to eligible employees and non-employee directors. Stock options 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 appreciation rights ("SARs") on issued options, however no SARs have been issued to date. 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. Options 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, and have a contractual term of 10 years. Equity awards can also include performance vesting conditions. Company policy further requires an additional one year holding period beyond the service vest date for certain executives. Beginning January 31, 2014, grants to employees included both company performance and service vesting conditions (as further described below). Grants to independent directors had a 3-year service vest condition. Following is a description of grants made under the Plan.

Stock Option Awards

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 extrapolated to the term 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:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Volatility	36.8%	48.1%	52.9%
Risk-free rate of return	1.03%	1.93%	2.03%
Dividend yield	1.96%	1.95%	2.09%
Expected average life (years)	5.0	6.3	6.7

Options granted to employees beginning January 1, 2014 vest provided certain performance and service conditions are met ("Performance Options"). The performance conditions allow the potential vesting in three equal tranches, provided

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attainment of a minimum annual 5% growth in operating income (as defined in the agreement) for each of the ensuing three fiscal years. If the minimum annual growth is not achieved in any fiscal year, that tranche is forfeited, except that if a cumulative compound growth rate of 5% is achieved at the end of the three fiscal years, performance conditions for all three tranches will have been met. Service conditions require an additional period after performance conditions are met. Consequently, assuming both performance and service conditions are met, shares become exercisable between 3 and 5 years from grant date. At June 30, 2017, 196,000 Performance Options achieved the performance conditions, and consequently will vest ratably in three equal tranches on the grant date anniversary in years three, four and five provided service conditions are also met. The remaining 130,000 Performance Options did not achieve the respective performance conditions so the amortization to date was reversed at June 30 2017, and the options will be cancelled during fiscal 2018. The Performance Options are reflected in the options tables presented below. 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, 2017 is presented below.

<u>Options</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (yrs)</u>	<u>Aggregate Intrinsic Value</u>
Outstanding - June 30, 2016	907,073	\$ 24.08		
Granted	20,153	34.73		
Exercised	(58,450)	20.51		
Canceled (forfeited/expired)	<u>(32,756)</u>	28.77		
Outstanding - June 30, 2017	<u>836,020</u>	<u>24.41</u>	<u>4.2</u>	<u>\$ 6,900,417</u>
Exercisable - June 30, 2017	<u>550,736</u>	<u>\$ 23.33</u>	<u>2.4</u>	<u>\$ 5,201,916</u>

The weighted average grant-date fair value of options granted during fiscal 2017, 2016 and 2015 was \$8.30, \$11.53 and \$11.30 respectively. The total intrinsic value of options exercised during 2017, 2016 and 2015 was \$0.8 million, \$0.3 million, and \$4.5 million, respectively. As of June 30, 2017, there was \$0.7 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 1.8 years. A summary of the nonvested shares as of June 30, 2017 and changes during the year then ended is presented below.

<u>Options</u>	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Nonvested June 30, 2016	353,702	\$ 11.28
Granted	20,153	8.30
Vested	(71,904)	10.67
Canceled (forfeited/expired)	<u>(16,667)</u>	11.25
Nonvested at June 30, 2017	<u>285,284</u>	\$ 11.18

Stock Unit Awards

We account for stock unit awards as equity-based awards because upon vesting, they will be settled in common shares. These awards, which contain time and other vesting conditions, may also contain performance conditions providing recipients a contingent right to receive shares of the Company's common stock ("Performance Units"), conditioned upon the Company's achievement of certain performance targets and goals, and subject to the terms of the agreements. For Performance Units, we expense as compensation cost the fair value of the shares as of the grant date, and amortize expense ratably over the total performance and time vest period, taking into account the probability that we will satisfy the performance goals. We estimate, as of the date of grant, the fair value of Performance Units with a discounted cash flow model, using as model inputs the risk-free rate of return as the discount rate, dividend yield for dividends not paid during the restriction period, and a discount for lack of marketability for a one-year post-vest holding period. The lack of marketability discount used is the present value of a future put option using Monte-Carlo and Black-Scholes pricing models. The weighted average assumptions used for the fiscal years ended June 30 are noted in the table following. No Performance based restricted stock unit awards were granted under the Plan prior to December 1, 2015.

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	<u>2017</u>	<u>2016</u>
Volatility	30.8%	33.3%
Risk-free rate of return	0.92%	0.77%
Dividend yield	1.97%	1.99%
Expected average life (years)	2.04	1.75

For each grant of Performance Units, the amount of the grant that will be earned and paid will be determined by reference to the achievement of certain performance goals for each of two initial fiscal years (on a cumulative basis) and the three fiscal years (on a cumulative basis) applicable to such grant. Equity-based compensation expenses related to performance-based shares recognized in our consolidated statements of comprehensive income are presented in the following table for the fiscal years ended June 30 (in thousands).

<u>Granted within fiscal years ending June 30,</u>	<u>2017</u>	<u>2016</u>
2016	\$ 794	\$ 733
2017	<u>12</u>	<u>-</u>
Total expense	<u>\$ 806</u>	<u>\$ 733</u>

A summary of stock unit activity occurring during the fiscal year ended June 30, 2017 is presented below.

	<u>Units</u>	<u>Weighted Average Grant Date Fair Value</u>
Non-vested units at June 30, 2016	218,050	\$ 24.53
Granted	90,280	29.28
Vested	-	-
Canceled (forfeited/expired)	<u>-</u>	<u>-</u>
Non-vested units at June 30, 2017	<u>308,330</u>	<u>25.92</u>

As of June 30, 2017, there was \$0.3 million of total unrecognized compensation cost related to nonvested units granted under the Plan based on our probability estimates. That cost is expected to be recognized over a weighted average period of 2.3 years.

Restricted Stock Awards

No restricted stock awards were granted or vested during fiscal 2017 and there was no unrecognized compensation cost related to restricted shares granted under the Plan.

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(11) Income Taxes

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current:			
Federal	\$ 15,265	\$ 27,660	\$ 15,064
State	1,585	2,898	489
Foreign	<u>445</u>	<u>88</u>	<u>55</u>
Total current	<u>17,295</u>	<u>30,646</u>	<u>15,608</u>
Deferred:			
Federal	3,413	(237)	2,979
State	85	207	759
Foreign	<u>8</u>	<u>703</u>	<u>195</u>
Total deferred	<u>3,506</u>	<u>673</u>	<u>3,933</u>
Income Tax Expense (Benefit)	<u>\$ 20,801</u>	<u>\$ 31,319</u>	<u>\$ 19,541</u>

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):

	<u>2017</u>		<u>2016</u>		<u>2015</u>	
Expected Income Tax Expense	\$ 19,947	35.0%	\$ 30,785	35.0%	\$ 19,839	35.0%
State income taxes, net of federal income tax	1,403	2.5%	2,514	2.9%	1,597	2.8%
Valuation allowance	329	0.6%	339	0.4%	409	0.7%
Section 199 Qualified Production Activities deduction	(999)	-1.8%	(1,513)	-1.7%	(998)	-1.8%
Unrecognized tax expense (benefit)	(48)	-0.1%	(479)	-0.5%	(641)	-1.1%
Other, net	<u>169</u>	<u>0.3%</u>	<u>(327)</u>	<u>-0.4%</u>	<u>(665)</u>	<u>-1.2%</u>
Actual income tax expense (benefit)	<u>\$ 20,801</u>	<u>36.5%</u>	<u>\$ 31,319</u>	<u>35.6%</u>	<u>\$ 19,541</u>	<u>34.5%</u>

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

	<u>2017</u>	<u>2016</u>
Deferred tax assets:		
Employee compensation accruals	4,395	4,343
Stock based compensation	2,878	2,665
Deferred rent credits	7,290	6,705
Net operating loss carryforwards	3,687	3,375
Inventories	1,254	155
Goodwill	953	1,729
Other, net	<u>2,396</u>	<u>2,504</u>
Total deferred tax assets	22,853	21,476
Less: Valuation allowance	<u>(2,485)</u>	<u>(2,155)</u>
Net deferred tax assets	<u>\$ 20,368</u>	<u>\$ 19,321</u>

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	<u>2017</u>	<u>2016</u>
Deferred tax liabilities:		
Property, plant and equipment	5,360	654
Intangible assets other than goodwill	14,166	14,260
Commissions	3,420	3,478
Other, net	<u>-</u>	<u>-</u>
Total deferred tax liability	<u>22,946</u>	<u>18,392</u>
Total net deferred tax asset (liability)	<u>\$ (2,578)</u>	<u>\$ 929</u>

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

	<u>2017</u>	<u>2016</u>
Current assets	\$ 3,916	\$ 3,174
Non-current assets	1,167	835
Current liabilities	-	-
Non-current liabilities	<u>7,661</u>	<u>3,080</u>
Total net deferred tax asset (liability)	<u>\$ (2,578)</u>	<u>\$ 929</u>

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 valuation allowance must be established for deferred tax assets when it is less than 50% likely that assets will be realized. At June 30 of 2017 and 2016, such an allowance was in place against the Belgian foreign tax assets, and at June 30, 2017 this valuation allowance was approximately \$2.5 million.

The Company’s deferred income tax assets at June 30, 2017 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 2018 and 2032	\$ 1,110	\$ 23,760
Foreign, Expiring in 2034	2,577	7,622

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 \$2.1 million of unrecognized tax benefits and related interest and penalties as of June 30, 2017 were recognized, approximately \$1.4 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, 2017 and 2016 is as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 2,170	\$ 3,117
Additions for tax positions taken	646	776
Reductions for tax positions taken in prior years	(694)	(1,530)
Settlements	<u>(16)</u>	<u>(193)</u>
Ending balance	<u>\$ 2,106</u>	<u>\$ 2,170</u>

It is reasonably possible that various issues relating to approximately \$0.2 million of the total gross unrecognized tax benefits as of June 30, 2017 will be resolved within the next twelve months as exams are completed or statutes expire. If recognized,

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approximately \$0.1 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 the U.S. Canada, Mexico, Belgium and Honduras. As of June 30, 2017, the Company and certain subsidiaries are currently under audit from 2014 through 2016 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.

(12) 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 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 \$3.5 million in 2017, \$3.4 million in 2016, and \$3.3 million in 2015.

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 of these benefits was \$1.0 million, \$3.6 million, and \$3.7 million in 2017, 2016 and 2015, respectively.

(13) Litigation

We are routinely party to various legal proceedings, including investigations or as a defendant in litigation, in the ordinary course of business. We are also subject to various 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. 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.

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. To reduce the use of hazardous materials in the manufacturing process, we will continue to evaluate the most appropriate, cost-effective control technologies for finishing operations and production methods. We believe that our facilities are in material compliance with all such applicable laws and regulations. Our currently anticipated capital expenditures for environmental control facility matters are not material.

On a quarterly basis, we review our litigation activities and determine if an unfavorable outcome to us is considered "remote", "reasonably possible" or "probable" as defined by U.S. GAAP. Where we determine an unfavorable outcome is probable and is reasonably estimable, we accrue for potential litigation losses. The liability we may ultimately incur with respect to such litigation matters, in the event of a negative outcome, may be in excess of amounts currently accrued, if any; however, we do not expect that the reasonably possible outcome of these litigation matters would, individually or in the aggregate, have a material adverse effect on our financial condition, results of operations or cash flows. Where we determine an unfavorable outcome is not probable or reasonably estimable, we do not accrue for any potential litigation loss.

Although the outcome of the various claims and proceedings against us cannot be predicted with certainty, management believes that the likelihood is remote that any existing claims or proceedings, individually or in the aggregate, will have a material adverse effect on our financial position, results of operations or cash flows.

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(14) Accumulated Other Comprehensive Income

The following table sets forth the activity in accumulated other comprehensive income for the fiscal years ended June 30 (in thousands):

	Years ended June 30,	
	2017	2016
Beginning balance	\$ (4,846)	\$ (2,638)
Changes before reclassifications	715	(2,208)
Amounts reclassified from accumulated other comprehensive income	-	-
Current period other comprehensive income	715	(2,208)
Ending balance	<u>\$ (4,131)</u>	<u>\$ (4,846)</u>

Foreign currency translation adjustments are the result of changes in foreign currency exchange rates related to our operations in Canada, Belgium, Honduras and Mexico, and exclude income taxes given that the earnings of non-U.S. subsidiaries are deemed to be reinvested for an indefinite period.

(15) Segment Information

Our wholesale and retail operating segments represent strategic business areas of our vertically integrated enterprise that operate separately and provide their own distinctive services. This vertical structure enables us to offer our complete line of home furnishings and accents more effectively while controlling quality and cost. We evaluate performance of the respective segments based upon revenues and operating income. Inter-segment transactions result, primarily, from the wholesale sale of inventory to the retail segment, including the related profit margin.

As of June 30, 2017, the Company operated 148 design centers (our retail segment) and our independent retailers operated 155 design centers. Our wholesale segment net sales include sales to our retail segment, which are eliminated in consolidation, and sales to our independent retailers. Our retail segment net sales accounted for 79% of our consolidated net sales in fiscal 2017. Our wholesale segment net sales to independent retailers accounted for 21%, including approximately 11.9% of our consolidated net sales in fiscal 2017 to the ten largest independent retailers, who operate 101 design centers. Information for each of the last three fiscal years ended June 30 is provided below (in thousands):

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	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Net sales:</u>			
Wholesale segment	\$ 453,326	\$ 491,467	\$ 469,384
Retail segment	603,677	626,511	579,713
Elimination of inter-company sales	<u>(293,618)</u>	<u>(323,776)</u>	<u>(294,497)</u>
Consolidated Total	<u>\$ 763,385</u>	<u>\$ 794,202</u>	<u>\$ 754,600</u>
 <u>Operating income (loss):</u>			
Wholesale segment	\$ 53,505	\$ 74,412	\$ 66,988
Retail segment	1,198	16,450	1,726
Adjustment of inter-company profit (1)	<u>3,247</u>	<u>(1,683)</u>	<u>(2,780)</u>
Consolidated Total	<u>\$ 57,950</u>	<u>\$ 89,179</u>	<u>\$ 65,934</u>
 <u>Depreciation & Amortization:</u>			
Wholesale segment	\$ 7,550	\$ 7,587	\$ 8,044
Retail segment	<u>12,565</u>	<u>11,766</u>	<u>11,098</u>
Consolidated Total	<u>\$ 20,115</u>	<u>\$ 19,353</u>	<u>\$ 19,142</u>
 <u>Capital expenditures:</u>			
Wholesale segment	\$ 8,589	\$ 12,446	\$ 9,427
Retail segment	9,056	10,521	10,360
Acquisitions	<u>676</u>	<u>165</u>	<u>1,991</u>
Consolidated Total	<u>\$ 18,321</u>	<u>\$ 23,132</u>	<u>\$ 21,778</u>
	<u>June 30,</u>	<u>June 30,</u>	<u>June 30,</u>
	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Total Assets:</u>			
Wholesale segment	\$ 279,364	\$ 271,116	\$ 295,949
Retail segment	319,341	339,942	341,886
Inventory profit elimination (2)	<u>(30,483)</u>	<u>(33,649)</u>	<u>(31,858)</u>
Consolidated Total	<u>\$ 568,222</u>	<u>\$ 577,409</u>	<u>\$ 605,977</u>

(1) Represents the change in wholesale profit contained in Ethan Allen design center inventory at the end of the period.

(2) 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.

Our international net sales are comprised of our wholesale segment sales to independent retailers and our retail segment sales to consumers through the Company operated design centers. The number of international design centers, and the related net sales as a percent of our consolidated net sales is shown in the following table.

	Fiscal Year Ended June 30,		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Independent design centers	<u>107</u>	<u>103</u>	<u>97</u>
Company operated design centers	<u>6</u>	<u>6</u>	<u>7</u>
Total international design centers	<u>113</u>	<u>109</u>	<u>104</u>
 Percentage of consolidated net sales	10.0%	9.2%	11.6%

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(16) Selected Quarterly Financial Data (Unaudited)

Tabulated below is selected financial data for each quarter of the fiscal years ended June 30, 2017, 2016, and 2015 (in thousands, except per share data):

	<u>Quarter Ended</u>			
	<u>September 30</u>	<u>December 31</u>	<u>March 31</u>	<u>June 30</u>
<u>Fiscal 2017:</u>				
Net Sales	\$ 193,287	\$ 194,672	\$ 180,501	\$ 194,925
Gross profit	108,467	108,124	94,735	108,397
Net income	11,529	10,700	2,282	11,683
Earnings per basic share	0.42	0.39	0.08	0.42
Earnings per diluted share	0.41	0.38	0.08	0.42
Dividends declared per common share	0.17	0.19	0.19	0.19
<u>Fiscal 2016:</u>				
Net Sales	\$ 190,391	\$ 207,535	\$ 190,583	\$ 205,693
Gross profit	104,673	116,058	105,717	115,788
Net income	13,147	16,534	10,178	16,778
Earnings per basic share	0.46	0.58	0.37	0.60
Earnings per diluted share	0.46	0.58	0.36	0.60
Dividends declared per common share	0.14	0.14	0.17	0.17
<u>Fiscal 2015:</u>				
Net Sales	\$ 190,706	\$ 197,067	\$ 173,259	\$ 193,568
Gross profit	104,803	106,074	94,110	106,176
Net income	11,879	10,038	2,536	12,689
Earnings per basic share	0.41	0.35	0.09	0.44
Earnings per diluted share	0.41	0.34	0.09	0.44
Dividends declared per common share	0.12	0.12	0.12	0.14

(17) 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 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. 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 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.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

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, 2017 and June 30, 2016

(in thousands):

	June 30, 2017			June 30, 2016		
	Level 1	Level 2	Balance	Level 1	Level 2	Balance
Cash equivalents	\$ 65,031	\$ -	\$ 65,031	\$ 60,479	\$ -	\$ 60,479
Available-for-sale securities	-	-	-	-	-	-
Total	\$ 65,031	\$ -	\$ 65,031	\$ 60,479	\$ -	\$ 60,479

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. There were no transfers between level 1 and level 2 during fiscal years 2017 or 2016. At June 30, 2017 and 2016, \$7.3 million and \$7.8 million, respectively, of cash equivalents were restricted and classified as a long-term asset.

We did not hold any available-for-sale securities at June 30, 2017 or 2016 as all municipal bonds matured and the proceeds were transferred to our operating cash accounts. There were no material gross unrealized gains or losses on available-for-sale securities at June 30, 2017 or June 30, 2016.

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, 2015, we determined that certain long-lived assets of our retail design centers in Belgium were impaired, and an impairment charge of \$0.8 million was recorded at that time.

(18) Restricted Cash and Investments

At June 30, 2017 and 2016 we held \$7.3 million and \$7.8 million, respectively, of cash and investments in lieu of providing letters of credit for the benefit of the provider of our workmen's compensation and other insurance liabilities. 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. See also Note 17, "Financial Instruments".

(19) Subsequent Events

None.

(20) Valuation and Qualifying Accounts

The following table provides information regarding the Company's sales discounts, sales returns and allowance for doubtful accounts (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, 2017	\$ 1,639	\$ 28	\$ -	\$ 1,667
June 30, 2016	1,386	253	-	1,639
June 30, 2015	\$ 1,442	\$ (56)	\$ -	\$ 1,386

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

None.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chairman of the Board and Chief Executive Officer ("CEO") and Executive Vice President Administration and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required financial disclosure.

We carried out an evaluation, under the supervision and with the participation of our management, including the CEO and the CFO, of the effectiveness of the design and operation of our 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 CFO have concluded that, as of June 30, 2017, 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 to the SEC 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 CFO, 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)). Our 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 U.S. GAAP.

Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Management has assessed 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 (2013 framework). Based on that evaluation, management concluded that our internal control over financial reporting was effective as of June 30, 2017 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with U.S. GAAP.

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, 2017, 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 fiscal quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

PART III

Except as set forth below, the information required by Items 10, 11, 12, 13 and 14 is incorporated by reference to Ethan Allen Interiors Inc. proxy statement for the Annual Meeting of Shareholders scheduled to be held on November 15, 2017 (the "Proxy Statement") to be filed with the SEC pursuant to Regulation 14A within 120 days after the end of our 2017 fiscal year.

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 any waiver of any provision thereof, applicable to our principal executive officer and/or principal financial officer, or persons performing similar functions, directors and other executive officers 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.

Identification of Executive Officers

The information set forth under the heading "Executive Officers of the Registrant" in Part I, Item 1 of this form 10-K is also incorporated by reference in this section.

Audit Committee Financial Expert

Our Board of Directors has determined that we have three "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:

James B. Carlson
Domenick J. Esposito
James W. Schmotter

All persons identified as audit committee financial experts are independent from management as defined by the applicable listing standards of the New York Stock Exchange.

The remaining information required by this Item will be included in and is incorporated herein by reference from our 2017 Proxy Statement.

Item 11. Executive Compensation

The information required by this Item will be included in and is incorporated herein by reference from our 2017 Proxy Statement.

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

The information required by this Item is incorporated by reference to the sections entitled ["Equity Compensation Plan Information"] and ["Security Ownership of Common Stock of Certain Owners and Management"] in the 2017 Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated by reference to the section entitled ["Certain Relationships and Related Party Transactions"] and ["Corporate Governance —Director Independence "] in the 2017 Proxy Statement.

Item 14. Principal Accounting Fees and Services

The information required by this item is incorporated by reference to the sections entitled ["Audit Fees"] and ["Audit and Non-Audit Engagement Pre-Approval Policy "] in the 2017 Proxy Statement.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

PART IV

Item 15. Exhibits and Financial Statement Schedules

- (a)(1) *Financial Statements.* Our Consolidated Financial Statements, included under Item 8 hereof, as required at June 30, 2017 and 2016, and for the years ended June 30, 2017, 2016 and 2015 consist of the following:
- Consolidated Balance Sheets
 - Consolidated Statements of Comprehensive Income
 - Consolidated Statements of Cash Flows
 - Consolidated Statements of Shareholders' Equity
 - Notes to the Consolidated Financial Statements

- (a)(2) *Financial Statement Schedules.* None.

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

<u>Exhibit Number</u>	<u>Exhibit</u>
3 (a)	Amended and Restated Certificate of Incorporation of the Company dated as of November 16, 2016 (incorporated by reference to Exhibit 3.(A) to the Current Report on Form 8-K of the Company filed with the SEC on November 16, 2016)
3 (b)	Certificate of Designations relating to the New Convertible Preferred Stock dated as of March 23, 1993 (incorporated by reference to Exhibit 3(b) to the Annual Report on Form 10-K of the Company filed with the SEC on August 8, 2012)
3 (c)	Certificate of Designations of Series C Junior Participating Preferred Stock dated as of July 3, 1996, and Certificate of Amendment of Certificate of Designations of Series C Junior Participating Preferred Stock dated as of December 27, 2004 (incorporated by reference to Exhibit 3(c) to the Annual Report on Form 10-K of the Company filed with the SEC on August 8, 2012)
3 (d)	Amended and Restated By-laws of the Company (incorporated by reference to Exhibit 3.(D) to the Current Report on Form 8-K of the Company filed with the SEC on November 16, 2016)
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

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

- 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 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)
- 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) 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 (d) 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)
- 10 (d)-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 (d)-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 (d)-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.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

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 (d)-4 Fourth Amendment to Second Amended and Restated Private Label Consumer Credit Card Program Agreement dated as of January 1, 2014, by and between Ethan Allen Global, Inc., Ethan Allen Retail, Inc., and GE Capital Retail Bank (incorporated by reference to Exhibit 10(d)-4 to the Quarterly Report on Form 10-Q of the Company filed with the SEC on January 31, 2014) (confidential treatment requested under Rule 24b-2 as to certain portions which are omitted and filed separately with the SEC)
- 10 (d)-5 Fifth Amendment to Second Amended and Restated Private Label Consumer Credit Card Program Agreement effective as of July 1, 2015, by and between Ethan Allen Global, Inc., Ethan Allen Retail, Inc., and Synchrony Bank (incorporated by reference to Exhibit 10.(D)-5 to the Annual Report on Form 10-K of the Company filed with the SEC on August 12, 2015) (confidential treatment requested under Rule 24b-2 as to certain portions which are omitted and filed separately with the SEC)
- 10 (e) Employment Agreement between the Company and M. Farooq Kathwari dated October 1, 2015 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on October 2, 2015) †
- 10 (e)-1 Form of Performance-Based Stock Unit Agreement (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on October 2, 2015) †
- 10 (e)-2 Change in Control Severance Plan (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on October 2, 2015) †
- 10 (f)-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 (f)-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 (f)-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 (f)-4 Amended and Restated Credit Agreement, dated October 21, 2014, among Ethan Allen Global, Inc., Ethan Allen Interiors Inc., J.P. Morgan Chase Bank, N.A., and Capital One, National Association (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K of the Company filed with the SEC on October 22, 2014)
- 10 (f)-5 Amendment No. 2 Dated as of September 10, 2015 to Amended and restated credit agreement dated as of October 21, 2014 among Ethan Allen Global, Inc., and J.P. Morgan Chase Bank, N.A. as Administrative Agent and Syndication Agent, and Capital One, National Association as Documentation Agent dated as of October 21, 2014 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on September 11, 2015)
- 10 (f)-6 Amendment No. 3, dated as of January 22, 2016, to the Amended and Restated Credit Agreement dated as of October 21, 2014 among Ethan Allen Global, Inc., Ethan Allen Interiors Inc., J.P.Morgan Chase Bank, N.A. and Capital One, National Association (incorporated by reference to the Company's Quarterly Report on Form 10-Q filed with the SEC on January 27, 2016).
- 10 (g) 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) †

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

10 (g)-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 (g)-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 (g)-3	Form of Restricted Stock Agreement for Executives (incorporated by reference to Exhibit 10(f)-1 to the Current Report on Form 8-K of the Company filed with the SEC on November 19, 2007) †
10 (g)-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 (g)-5	Form of performance condition option agreement for employees (incorporated by reference to Exhibit 10(g)-5 to the Quarterly Report on Form 10-Q of the Company filed with the SEC on May 1, 2014) †
21	List of wholly-owned subsidiaries of the Company
23	Consent of KPMG LLP
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
* 32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
* 32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Labels Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

* Furnished herewith.

† Management contract or compensatory plan, contract or arrangement.

Item 16. Form 10-K Summary

None.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

SIGNATURES

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

ETHAN ALLEN INTERIORS INC.

(Registrant)

DATE: August 2, 2017

By /s/ M. Farooq Kathwari

(M. Farooq Kathwari)

Chairman, President and Chief Executive Officer

(Principal Executive Officer)

DATE: August 2, 2017

By /s/ Corey Whitely

(Corey Whitely)

Executive Vice President, Administration, Chief Financial Officer and Treasurer

(Principal Financial Officer)

KNOW ALL MEN BY THESE PRESENTS, that each individual whose signature appears below hereby constitutes and appoints M. Farooq Kathwari and Corey Whitely, and each of them individually, his or her true and lawful agent, proxy and attorney-in-fact, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to (i) act on, sign and file with the Securities and Exchange Commission any and all amendments to this Report together with all schedules and exhibits thereto, (ii) act on, sign and file with the Securities and Exchange Commission any and all exhibits to this Report and any and all exhibits and schedules thereto, (iii) act on, sign and file any and all such certificates, notices, communications, reports, instruments, agreements and other documents as may be necessary or appropriate in connection therewith and (iv) take any and all such actions which may be necessary or appropriate in connection therewith, granting unto such agents, proxies and attorneys-in-fact, and each of them individually, full power and authority to do and perform each and every act and thing necessary or appropriate to be done, as fully for all intents and purposes as he or she might or could do in person, and hereby approving, ratifying and confirming all that such agents, proxies and attorneys-in-fact, any of them or any of his, her or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

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

(M. Farooq Kathwari)

Chairman, President and Chief Executive Officer

(Principal Executive Officer)

/s/ Corey Whitely

(Corey Whitely)

Executive Vice President, Administration,

Chief Financial Officer and Treasurer

(Principal Financial Officer)

/s/ John S. Bedford

(John S. Bedford)

Vice President, Corporate Controller

(Principal Accounting Officer)

/s/ James B. Carlson

(James B. Carlson)

Director

/s/ John J. Dooner Jr.

(John J. Dooner Jr.)

Director

/s/ Domenick J. Esposito

(Domenick J. Esposito)

Director

/s/ Mary Garrett

(Mary Garrett)

Director

/s/ James W. Schmotter

(James W. Schmotter)

Director

/s/ Tara I. Stacom

(Tara I. Stacom)

Director

Date: August 2, 2017

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SUSTAINABLE OPERATIONS

Sustainable operations, safe processes, and social conscience have been the hallmarks of Ethan Allen's past. We believe these fundamental values, timeless even in an uncertain and rapidly shifting marketplace, will also define our future.

In 1999, Ethan Allen created its Environmental Health and Safety (EH&S) initiative. It is now what it was then: a passionate drive, from corporate offices to Design Centers to manufacturing facilities to supply chains—end to end and top to bottom—to build both environmental commitment and outstanding business performance through sustainable operations.

At first, we were guided by voluntary efforts. In 2010, we stepped up our commitment in a big way. We partnered with the American Home Furnishings Alliance to start our journey toward becoming a Sustainable by Design company.

The Sustainable by Design process provides a sound procedural framework for our environmental efforts, but make no mistake—sustainability is in our DNA.

Ethan Allen has always made the extra effort to minimize our effect on the environment, and we did it when no one asked us to.

EFEC REGISTRATION

The first step toward our systemic environmental responsibility commitment was to register as an Enhancing Furniture's Environmental Culture (EFEC) company. It meant implementing a comprehensive environmental management system that helped us learn how our processes, raw materials, and finished products affect the environment.

EFEC brought a new level of awareness to our EH&S efforts. It transformed the way we worked and the way we crafted our products. Every Ethan Allen manufacturing, distribution center, and service center, and all of our Design Centers, are now EFEC registered.



OPERATIONS

Across our company, we've revamped our processes to **slash our carbon footprint**. In both our Orleans, Vermont, manufacturing plant and our Beecher Falls, Vermont, plant and sawmill, **we now use sawdust scraps in lieu of fossil fuels to power our boilers**. In Beecher Falls, we also use steam from our boilers to heat our wood-drying kilns. When appropriate, the steam is used for true cogeneration of electricity.

In Beecher Falls and Orleans, Vermont; in Passaic, New Jersey; and in Old Fort and Maiden, North Carolina, **our plants recycle or repurpose every resource they can, which has reduced our domestic manufacturing landfill waste**. We've also established successful recycling programs in our global headquarters and in all our Design Centers. In fact, **many of our distribution and service centers have achieved a negative carbon footprint profile** due to establishing strong recycling and repurposing programs.

Ethan Allen's recycling efforts in manufacturing have leveled off to a nine-percent increase since 2010, suggesting both that less material is being recycled and that we've achieved tighter control over materials purchased. Still, this enables over 140,000 pounds of what would have gone into landfills to find new uses.





SPOTLIGHT ON NEWTOWN, CT

RAW MATERIALS

Ethan Allen's future—in fact, the world's future—depends on healthy, well-managed forests. In many cases, we satisfy our manufacturing requirements with hardwoods that regenerate naturally through seeding and sprouting. When we use nonnative species like mahogany, we work to source it from properly managed forests. We also address Lacey Act compliance, maintaining transparency concerning the origins of plant species and plant products we use.

FINISHED PRODUCTS

Our environmental commitment doesn't end when our products roll off the factory floor. **We work to ensure our products are safe in our customers' homes** through responsible use of chemicals and manufacturing substances.

- **Safer packaging.** We've eliminated the use of heavy metals and hydrochlorofluorocarbons (HCFC) in all packaging components.
- **Sensible fabrics and foams.** Our mattresses and custom upholstery use only CertiPUR-US® certified foams, which are low-VOC polyurethanes made without harmful chemicals and substances—no formaldehyde, mercury, lead, heavy metals, PBDEs, ozone depleters, or prohibited phthalates.
- **Superior finishes.** By using low-HAP, low-VOC coatings, including some water-based finishes, we're committed to improving air quality in our facilities.

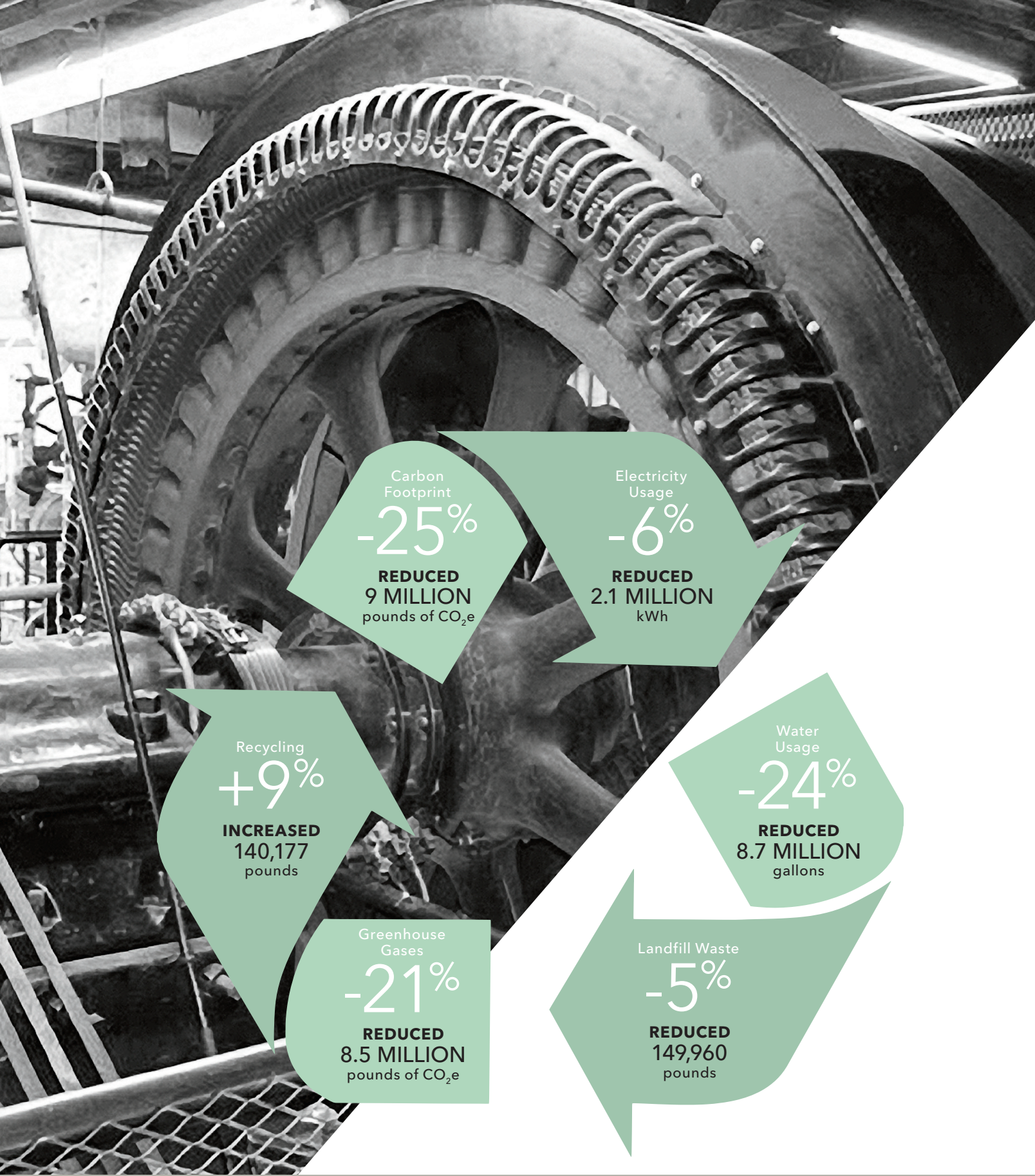
A service center has transformed itself into a recycling and sustainability powerhouse.

When you visit Ethan Allen's Newtown service center, you'll notice a warehouse full of people and finely crafted furniture. You'll also see an enormous cardboard compactor and a machine that transforms polystyrene into long recyclable bricks.

Newtown is the company's largest service center, and it's distinguished by its exemplary commitment to recycling. Newtown's cuts in CO₂e alone offset the carbon footprint of every Design Center it supplies. According to manager J.J. Monteiro, Newtown's Styrofoam recycling efforts have earned over \$100,000 in federal government rebates. And their waste management company doesn't even charge them for hauling away plastic—because the quantity of plastic they get from Newtown earns them a net profit.

Monteiro credits EH&S director Paul Kaminski for keeping sustainability front and center. He also credits assistant warehouse manager Dan Williams, who is the point person for Newtown's EFEC program.

Starting on the day they join Ethan Allen and continuing through every day on the job, Newtown associates learn the why behind the recycling commitment—and they learn to see it as a point of pride. The Newtown team isn't done yet. They're upgrading lighting systems next.



Carbon Footprint
-25%
REDUCED
9 MILLION
pounds of CO₂e

Electricity Usage
-6%
REDUCED
2.1 MILLION
kWh

Recycling
+9%
INCREASED
140,177
pounds

Water Usage
-24%
REDUCED
8.7 MILLION
gallons

Greenhouse Gases
-21%
REDUCED
8.5 MILLION
pounds of CO₂e

Landfill Waste
-5%
REDUCED
149,960
pounds

OUR SUSTAINABILITY SUCCESS STORY
DOMESTIC MANUFACTURING CHANGES, 2010 to 2016



SUSTAINABLE BY DESIGN

The second step of the AHFA Environmental Management System process extends our EFEC work throughout our supply chain. It requires us to quantify our supply chain's environmental effects, our overall corporate environmental footprint, our global climate impact, and our social responsibility successes.

ENVIRONMENTALLY PREFERABLE PURCHASING

Our Environmentally Preferable Purchasing initiative means that, **in all aspects of our business, we consider sustainability factors before purchasing materials.** Some of the environmental factors we weigh during the procurement process include:

- Recycled content
- Durability
- Product disassembly potential
- Take-back
- Energy efficiency
- Recyclability
- Reusability
- Reconditioned or remanufactured
- Bio-based
- Water efficiency

We evaluate our purchasing options based on the Environmental Protection Agency's (EPA) equation:

Environment + Price + Performance = Environmentally Preferable Purchasing

We also incorporate risk assessment into every purchasing decision. This means thinking about the country in which items are produced and the standards governing how workers are treated. It also means evaluating how well producers control processes and whether they follow industry best practices. **Being "Sustainable by Design" means not only protecting the environment but also preserving our reputation for quality.**

CARBON FOOTPRINT CALCULATOR

Our carbon footprint calculator assesses the environmental impact of each Ethan Allen location—and our combined global environmental impact. We established baseline readings at different locations, implemented changes, and set target metrics for six key areas:

- 1. Overall carbon footprint.** We took baseline measurements, measured in tons of CO₂e released per year, and implemented changes in our manufacturing facilities starting in 2010. In 2011, we added distribution centers to our initiative, and in 2016 we have expanded this method into our Retail Design Centers.
- 2. Electricity.** In our manufacturing operations, we burn sawdust and scrap wood to generate steam and, in some locations, we use that steam to cogenerate electricity. We've also implemented more energy-efficient lighting throughout the company. These measures help us lower the total kilowatt-hours we purchase from the grid.
- 3. Water.** We're using fewer gallons of water than we once did thanks to initiatives like installing low-flow toilets, adding restrictors to certain water systems, and improving delivery efficiency.
- 4. Landfill waste.** From our corporate offices to every manufacturing, distribution, and retail location, we make it easy for employees to recycle as many items as possible, reducing our contribution to landfills.
- 5. Greenhouse gas.** In addition to cutting carbon, we're working hard to release fewer pounds of other greenhouse gases that can increase the greenhouse effect.
- 6. Biomass.** Our manufacturing business uses wood products as raw material in much that we manufacture. When we combust wood leftovers from our manufacturing operations and burn them for steam generation, we not only cut energy costs but also get true cogeneration when the same steam for heating is used to dry lumber or make energy.



SAFE
PROCESSES



We make approximately 75 percent of our products in our North American workshops and maintain partnerships with artisans around the world. To give our clients the quality they always expect from Ethan Allen—and as a statement of our values—we're working to standardize processes in product development, manufacturing, and distribution.

We also meet or exceed a range of product safety regulatory standards. **From the way we source wood to the way we craft custom upholstery, our efforts coalesce around three core concepts: delivering quality without compromise, forming transparent partnerships, and ensuring accountability throughout the supply chain.**

QUALITY WITHOUT COMPROMISE

In partnership with EH&S, the Ethan Allen Product Compliance team is doing an extensive overhaul of both our product standards manual and our product testing and labeling protocols. This means **creating uniform preproduction processes, improving inspections, enhancing product testing, performing additional third-party evaluations, and ensuring responsible labeling.**

- **Preproduction:** As we build partnerships with new facilities all over the world, we're asking for more consistent design drawings and specifications for every Ethan Allen product. We want each factory to understand our design expectations to an extraordinary level of detail. This precision means that **every worker manufacturing an Ethan Allen chair, at any Ethan Allen or partner manufacturing facility, knows where every last screw and nail should go and which types of screws and nails we expect them to use.**

- **Inspection:** During both in-line and postproduction inspections, as well as when component parts arrive at each factory, **we're rolling out more uniform procedures to ensure consistent production quality.** We're also working with manufacturers to help them build internal quality control teams, to train their workers to a high level, to investigate potential issues before they become problems, and to know when to escalate quality control issues to facility managers and Ethan Allen partners.
- **Product testing:** We're rolling out informative, easy-to-use manuals for every product we create, including detailed lists of testing protocols and acceptable results. **From children's products to lighting, we ensure that any product bearing our name meets or exceeds safety standards.**
- **Responsible labeling:** From product labeling to labels on shipping cartons, **we're improving accuracy and communication throughout the supply chain** and with regulators. We're keeping our Sustainable by Design goal in mind: to let our clients know the safety, health, and environmental impact of every Ethan Allen product.



SPOTLIGHT ON MAIDEN, NC

Improved processes and a team commitment lead to big safety improvements.

The North Carolina Department of Labor recently recognized Ethan Allen's Maiden manufacturing plant for achieving one million man hours without a single lost time incident. The local safety director, Matt Jenkins, credits improved safety training, better case management, and solid managerial support for the change.

Maiden organized a ten-member safety team—none of whom are managers—to perform safety audits and conduct training on all manufacturing procedures. Lavonda Shires, RN, Maiden's occupational health and case management nurse, says that incidents are declining because front-line managers take more responsibility for their areas. Her case management philosophy is simple: Report on every incident, even minor ones. "The more minor incidents you report," she says, "the fewer major incidents you have."

Jenkins credits plant manager Randy Rose for supporting corporate safety initiatives; Rose is a big EH&S supporter, which drives program success from the top down to the shop floor, where injuries can happen. "I believe this support from the top down is as critical as good programs and training," Jenkins says. "The line people will always support EH&S if they believe management does."



TRANSPARENT PARTNERSHIPS

Ethan Allen's manufacturing facilities are built close to sources of raw materials, and they're based in communities with talent pools of skilled craftspeople. In addition to our U.S. facilities, we have an upholstery manufacturing plant in Mexico and a case goods manufacturing plant in Honduras.

We also selectively outsource outside the United States, mostly in Asia, and mostly with suppliers that have worked with Ethan Allen for many years. **Sustainability requires a consistent supply chain, and we've worked hard to minimize disruptions by developing strong relationships with our stakeholders.**

Setting clear product creation, manufacturing, testing, and shipping standards is one way we communicate expectations to every vendor. **We also set high standards regarding the way we expect our partners to operate.** For example, when our suppliers partner with their own contractors to deliver work for Ethan Allen, we endeavor to ensure they receive training regarding our safety program requirements and follow our contractor safety guidelines.

Additionally, we're building partnerships with local third-party testing facilities to make it **easier for our partners to meet product quality standards.** In addition to performing required testing procedures and generating accurate results, our partners are expected to educate manufacturers about all testing procedures. All manufacturers are expected to use Ethan Allen-approved testing facilities.

ACCOUNTABILITY THROUGHOUT THE SUPPLY CHAIN

It's not enough to state our expectations; we also have to ensure they are met. Most of the risk assessment activities for our outsourced products are informal based on our long history with suppliers. They understand our expectations and maintain close communications with our purchasers and merchandisers. Ethan Allen works hard to ensure suppliers continuously meet standards related to the

- social mores and standards of the country of operation;
- control of processes according to industry best practices;
- disclosure of subcontractors; and
- workforce size and labor type.

As representatives of Ethan Allen, our merchandisers and purchasers are expected to report risks both to supervisors and to product supply chain team members. After supervisors confirm that a high-risk scenario exists, they communicate that risk to our VP of operations. Then, a specific action plan, with remediation steps and a realistic timeframe for improvement, is implemented. **If suppliers fail to address noncompliance, and they continue to take actions that don't reflect our social conscience, we reserve the right to terminate that relationship and find a more appropriate partner.**



SPOTLIGHT ON HONDURAS

From daily medical care to award-winning health fairs, the Ethan Allen medical clinic is changing lives.

Imagine having a clinic at your workplace that treats everything from injuries to chronic disease. At Ethan Allen's Honduras manufacturing plant, on-site medical services are part of the benefits package.

Plant manager Carolina Pascua says the clinic's biggest benefit is providing immediate medical attention to all associates when needed. "In most cases, they receive immediate attention on site, without having to move to another facility."

Eighty percent of the plant's 475 employees have received care from their medical clinic. In addition to seeing a doctor and a nurse trained in occupational health, associates can take advantage of educational lectures, lab tests, and seasonal health initiatives, like flu vaccine clinics.

For three consecutive years, the clinic's health fairs have been recognized as "Best Health Fair" by the Medical Enterprise System of the Honduran Institute of Social Security. Each health fair offers a free breakfast as well as specialist consultations with pediatricians, nutritionists, orthopedists, gynecologists, and more. There were a total of 816 consultative visits during the 2016 health fair, including care from 23 dentists who performed over 90 procedures. Associates and their families also received needed health services, from eye exams to vaccines, all free of charge.



SOCIAL CONSCIENCE

At its core, Ethan Allen is about people. Every piece we create begins as an idea in a human mind. **Everything we manufacture is touched by human hands.** Every item we sell becomes a treasure in a human's home or work space.

Our commitment to humanity defines the way we do business. It includes such values as managing employees fairly, caring for communities, and being consistent in our treatment of all stakeholders.

For instance, in our Mexico and Honduras plants, we maintain environmental, safety, and social responsibility standards that match those in our U.S. facilities. It's not something we do because it's legally required. **It's something we do because it's the right thing to do.**

No matter where our products are made or sourced, we strive to build partnerships with vendors that respect people, the law, and the land. To make our expectations clear, we've developed a Supplier Code of Conduct. **We've also further refined our approach through our partnership with Disney, using their International Labor Standards as a model for our vendors throughout the supply chain.**

RESPECTING PEOPLE

Our Code of Conduct makes it clear that **we expect fair treatment for workers.** Fair treatment means providing adequate wages and benefits, and it means understanding that child and involuntary labor are unacceptable. Although we support apprenticeship programs, we believe they shouldn't keep children from completing their compulsory education requirements.

RESPECTING THE LAW

Fair competition is the key to a functioning economy in which everyone can thrive. As an organization, Ethan Allen does everything possible to respect the laws and regulations of the countries in which we operate. We ask Ethan Allen suppliers to avoid prohibited business practices. We also expect them to refrain from engaging in bribery or other corrupt customs. In addition, we work closely with regulators in every country, staying abreast of new regulations and working to ensure both product safety and product compliance.

RESPECTING THE LAND

People depend on the Earth and its resources. At Ethan Allen, we believe that **by using land and resources responsibly, we demonstrate our respect for people and the environment.**

In compliance with the Lacey Act, **we provide transparency regarding the sources of plants and plant products,** helping to discourage illegal logging and helping developing countries retain control of their natural resources. We also track the use of conflict minerals in our supply chain, disclosing all information to the public as required by Dodd-Frank.

In addition, we comply with local, state, federal, and international regulations to minimize the presence of toxins in our products and packaging. Our commitment to environmental responsibility strikes a balance between **protecting our environment and giving our customers what they want without compromising quality of life, now and in the future.**



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ENDURING VALUES, BUILT TO LAST

Ethan Allen is the quintessential American brand. We've spent 85 years building a reputation for quality and craftsmanship; **our products do, and always will, stand the test of time.**

We've also built a business model worthy of our namesake; we conduct business today according to values that ensure a resource base and market for tomorrow.

The timeless values that have carried Ethan Allen this far are the same guideposts pointing us toward a resilient and prosperous future.

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as of August 31, 2017

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