ETHAN ALLEN INTERIORS INC
Form 10-K
August 02, 2017

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

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

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

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

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:

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

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 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.

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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 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.

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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 Ethen 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.

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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 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 knowledgable 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

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

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 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.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

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.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

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.

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

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

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.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

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

	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.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

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:

	Market Price		Dividends
	High	Low	Per Share
Fiscal 2017			
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
Fiscal 2016			
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:

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

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

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 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.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

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.

	Fiscal Year Ended June 30,				
	2017	2016	2015	2014	2013
Consolidated Operations Data					
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	361,773	353,057	345,229	336,860	337,912
Operating income	57,950	89,179	65,934	69,636	60,437
Interest and other expense, net	955	1,223	9,251	7,234	10,263
Income before income tax expense	56,995	87,956	56,683	62,402	