

ETHAN ALLEN INTERIORS INC  
Form 10-Q  
February 07, 2007

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2006

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, Connecticut

06811

\_\_\_\_\_  
(Address of principal executive offices)

\_\_\_\_\_  
(Zip Code)

(203) 743-8000

\_\_\_\_\_  
(Registrant's telephone number, including area code)

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Yes  No

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

At December 31, 2006, there were 31,737,339 shares of Class A Common Stock, par value \$.01, outstanding.

### ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

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## PART I FINANCIAL INFORMATION

**Item 1. Financial Statements**

## ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

## Consolidated Balance Sheets

(In thousands, except share data)

	December 31, 2006	June 30, 2006
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 155,564	\$ 173,801
Accounts receivable, less allowance for doubtful accounts of \$1,928 at December 31, 2006 and \$2,074 at June 30, 2006	15,212	22,179
Inventories (note 4)	179,604	189,650
Prepaid expenses and other current assets	34,200	29,430
Deferred income taxes	7,348	8,696
	<hr/>	<hr/>
Total current assets	391,928	423,756
Property, plant and equipment, net	312,581	294,170
Goodwill and other intangible assets (notes 6 and 7)	90,127	87,899
Other assets (note 8)	6,122	6,416
	<hr/>	<hr/>
Total assets	\$ 800,758	\$ 812,241
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt (note 8)	\$ 39	\$ 39
Customer deposits	46,709	53,203
Accounts payable	23,403	28,549
Accrued compensation and benefits	32,709	33,314
Accrued expenses and other current liabilities (note 5)	31,508	30,613
	<hr/>	<hr/>
Total current liabilities	134,368	145,718
Long-term debt (note 8)	202,808	202,748
Other long-term liabilities	12,183	12,151
Deferred income taxes	30,985	34,182
	<hr/>	<hr/>
Total liabilities	380,344	394,799
Shareholders' equity:		
Class A common stock, par value \$.01, 150,000,000 shares authorized; 46,941,920 shares issued at December 31, 2006 and 46,686,512 shares issued at June 30, 2006	469	467
Class B common stock, par value \$.01, 600,000 shares authorized; no shares issued and outstanding at December 31, 2006 and June 30, 2006		
Preferred stock, par value \$.01, 1,055,000 shares authorized; no shares issued and outstanding at December 31, 2006 and June 30, 2006		
Additional paid-in capital	315,548	307,852
	<hr/>	<hr/>

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	December 31, 2006	June 30, 2006
	316,017	308,319
Less: Treasury stock (at cost), 15,204,581 shares at December 31, 2006 and 14,566,620 shares at June 30, 2006	(444,370)	(421,308)
Retained earnings	548,009	529,496
Accumulated other comprehensive income (notes 8 and 11)	758	935
<b>Total shareholders' equity</b>	<b>420,414</b>	<b>417,442</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 800,758</b>	<b>\$ 812,241</b>

See accompanying notes to consolidated financial statements.

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**ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES**

**Consolidated Statements of Operations**

**(Unaudited)**

(In thousands, except per share data)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2006	2005	2006	2005
Net sales	\$ 257,419	\$ 276,003	\$ 500,242	\$ 527,317
Cost of sales	123,669	136,149	240,163	260,923
<b>Gross profit</b>	<b>133,750</b>	<b>139,854</b>	<b>260,079</b>	<b>266,394</b>
Operating expenses:				
Selling	54,175	54,511	109,213	107,951
General and administrative	43,360	41,055	86,485	81,720
Restructuring and impairment charge (credit), net (note 5)	(314)		13,622	4,241
<b>Total operating expenses</b>	<b>97,221</b>	<b>95,566</b>	<b>209,320</b>	<b>193,912</b>
<b>Operating income</b>	<b>36,529</b>	<b>44,288</b>	<b>50,759</b>	<b>72,482</b>
Interest and other miscellaneous income, net	2,575	1,161	4,807	1,203
Interest and other related financing costs (note 8)	2,915	2,974	5,853	3,402
<b>Income before income taxes</b>	<b>36,189</b>	<b>42,475</b>	<b>49,713</b>	<b>70,283</b>
Income tax expense	13,397	16,311	18,469	26,989
<b>Net income</b>	<b>\$ 22,792</b>	<b>\$ 26,164</b>	<b>\$ 31,244</b>	<b>\$ 43,294</b>

(Unaudited)

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	Three Months Ended December 31,		Six Months Ended December 31,	
<u>Per share data (note 10):</u>				
Basic earnings per common share:				
Net income per basic share	\$ 0.72	\$ 0.79	\$ 0.98	\$ 1.29
Basic weighted average common shares	31,737	33,078	31,776	33,499
Diluted earnings per common share:				
Net income per diluted share	\$ 0.70	\$ 0.77	\$ 0.96	\$ 1.26
Diluted weighted average common shares	32,503	33,845	32,567	34,236

See accompanying notes to consolidated financial statements.

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**ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows**

**(Unaudited)**

(In thousands)

	Six Months Ended December 31,	
	2006	2005
<u>Operating activities:</u>		
Net income	\$ 31,244	\$ 43,294
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,423	10,855
Compensation expense related to share-based awards	427	1,413
Provision (benefit) for deferred income taxes	(1,849)	(3,977)
Excess tax benefits from share-based payment arrangements	(1,661)	(88)
Restructuring and impairment charge (credit), net	9,619	2,915
(Gain) loss on disposal of property, plant and equipment	407	1,748
Other	483	137
Change in assets and liabilities, net of the effects of acquired businesses:		
Accounts receivable	6,366	4,488
Inventories	13,796	(4,359)
Prepaid expenses and other current assets	(4,341)	3,544
Other assets	267	474
Customer deposits	(8,181)	(7,125)
Accounts payable	(4,145)	8,005
Accrued expenses and other current liabilities	2,362	5,065
Other long-term liabilities	32	(336)
Net cash provided by operating activities	56,249	66,053

(Unaudited)

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	Six Months Ended December 31,	
<b>Investing activities:</b>		
Proceeds from the disposal of property, plant and equipment	61	1,568
Capital expenditures	(34,947)	(21,149)
Acquisitions	(9,569)	(1,690)
Cash payments on hedging contracts		(930)
Other	78	904
	<u>          </u>	<u>          </u>
Net cash used in investing activities	(44,377)	(21,297)
	<u>          </u>	<u>          </u>
<b>Financing activities:</b>		
Borrowings on revolving credit facility		17,000
Payments on revolving credit facility		(25,000)
Net proceeds from issuance of long-term debt		198,396
Payments on long-term debt	(19)	(40)
Proceeds from issuance of common stock	126	518
Excess tax benefits from share-based payment arrangements	1,661	88
Payment of deferred financing costs	(107)	(2,095)
Payment of cash dividends	(12,159)	(11,220)
Purchases and other retirements of company stock	(19,536)	(51,137)
	<u>          </u>	<u>          </u>
Net cash (used in) provided by financing activities	(30,034)	126,510
	<u>          </u>	<u>          </u>
Effect of exchange rate changes on cash	(75)	294
	<u>          </u>	<u>          </u>
Net increase (decrease) in cash and cash equivalents	(18,237)	171,560
Cash and cash equivalents - beginning of period	173,801	3,448
	<u>          </u>	<u>          </u>
Cash and cash equivalents - end of period	\$ 155,564	\$ 175,008
	<u>          </u>	<u>          </u>

See accompanying notes to consolidated financial statements.

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**ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES**

**Consolidated Statements of Shareholders' Equity**

**Six Months Ended December 31, 2006**

**(Unaudited)**

(In thousands, except share data)

	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Balance at June 30, 2006	\$ 467	\$ 307,852	\$ (421,308)	\$ 935	\$ 529,496	\$ 417,442
Issuance of 255,408 shares of common stock upon exercise of share-based awards (note 3)	2	5,416				5,418

(Unaudited)

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	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Treasury Stock</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Retained Earnings</u>	<u>Total</u>
Compensation expense associated with share-based awards (note 3)		427				427
Tax benefit associated with exercise of share-based awards (note 3)		1,661				1,661
Charge for early vesting of share-based awards		22				22
Treasury shares issued in connection with retail IDC acquisition (26,269 shares) (note 6)		170	765			