

ETHAN ALLEN INTERIORS INC
Form 10-Q/A
May 10, 2005

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

FORM 10-Q/A
(Amendment No. 1)

(Mark One)

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

For the quarterly period ended September 30, 2004

or

TRANSITION REPORT PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 1-11692

Ethan Allen Interiors Inc.

(Exact name of registrant as specified in its charter)

Delaware

06-1275288

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer ID No.)

Ethan Allen Drive, Danbury, Connecticut 06811

(Address of principal executive offices)

(203) 743-8000

(Registrant's telephone number, including area code)

N/A

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

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

Yes No

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

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

At September 30, 2004, there were 35,942,528 shares of Class A Common Stock, par value \$.01, outstanding.

EXPLANATORY NOTE

As previously disclosed in the Current Report on Form 8-K as filed by Ethan Allen Interiors Inc. (the "Company") on April 20, 2005, management of the Company, in consultation with the Audit Committee of the Board of Directors of the Company and its independent registered public accounting firm, KPMG LLP, have concluded that the Company's consolidated financial statements contained within (i) the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2004 (including all periods presented therein) and (ii) the Company's Quarterly Reports on Form 10-Q for the interim periods ended September 30, 2004 and December 31, 2004 (including all periods presented therein), should be restated, and that such previously filed financial statements should no longer be relied upon.

On February 7, 2005, the Office of the Chief Accountant of the Securities and Exchange Commission ("SEC") issued a letter to the American Institute of Certified Public Accountants expressing its views regarding certain operating lease accounting issues and their application under accounting principles generally accepted in the United States of America. Management of the Company subsequently initiated a review of the Company's lease-related accounting practices and determined that the manner in which it accounted for (i) the amortization of leasehold improvements, (ii) landlord/tenant incentives (specifically, construction allowances), and (iii) the recognition of rent expense (income) when the lease term in an operating lease contains periods of free or reduced rents (i.e. rent holidays and/or rent escalation provisions) were not consistent with the views expressed by the SEC and/or the applicable accounting guidance and that certain previously filed financial statements required restatement. See Note 3, *Restatement of Previously Issued Financial Statements*, in the accompanying Consolidated Financial Statements (including the notes thereto), and Management's Discussion and Analysis of Financial Condition and Results of Operations for the impact of the restatement. This amended Quarterly Report on Form 10-Q/A amends and restates those items of the previously filed Form 10-Q for the three months ended September 30, 2004, which have been affected by the revisions.

This amended Quarterly Report on Form 10-Q/A has not been updated except as required to reflect the effects of the foregoing restatement. In order to preserve the nature and character of the disclosures set forth in such items as originally filed, no attempt has been made in this amendment to modify or update the disclosures in the original Quarterly Report on Form 10-Q except for the foregoing restatement. As a result, this amended Quarterly Report on Form 10-Q/A contains forward-looking information which has not been updated for events subsequent to the date of the original filing, and all information contained in this amended Quarterly Report on Form 10-Q/A and the original Quarterly Report on Form 10-Q is subject to updating and supplementing as provided in the periodic reports that the Company has filed and/or will file with the SEC after the original filing date of the Quarterly Report on Form 10-Q.

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)

	September 30, 2004	June 30, 2004
	(as restated, see note 3)	(as restated, see note 3)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 35,960	\$ 27,528
Short-term investments	--	--
Accounts receivable, less allowance for doubtful accounts of \$2,030 at September 30, 2004 and \$2,194 at June 30, 2004	25,932	26,967
Inventories (note 5)	179,194	186,895
Prepaid expenses and other current assets	31,106	28,166
Deferred income taxes	28,563	28,905
Total current assets	300,755	298,461
Property, plant and equipment, net	275,051	277,437
Goodwill and other intangible assets (note 7)	80,181	80,038
Other assets	3,169	2,431
Total assets	\$ 659,156	\$ 658,367
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
	\$ 4,693	\$ 4,712

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	September 30, 2004	June 30, 2004
Current maturities of long-term debt and capital lease obligations		
Customer deposits	59,973	56,026
Accounts payable	28,387	22,222
Accrued compensation and benefits	26,370	27,950
Accrued expenses and other current liabilities (note 6)	24,563	25,779
Total current liabilities	143,986	136,689
Long-term debt	4,490	4,509
Other long-term liabilities	9,830	9,781
Deferred income taxes	52,287	51,248
Total liabilities	210,593	202,227
Shareholders' equity:		
Class A common stock, par value \$.01, 150,000,000 shares authorized; 45,822,983 shares issued at September 30, 2004 and 45,812,032 shares issued at June 30, 2004	458	458
Class B common stock, par value \$.01, 600,000 shares authorized; no shares issued and outstanding at September 30, 2004 and June 30, 2004	--	--
Preferred stock, par value \$.01, 1,055,000 shares authorized; no shares issued and outstanding at September 30, 2004 and June 30, 2004	--	--
Additional paid-in capital	290,060	289,707
	290,518	290,165
Less: Treasury stock (at cost), 9,880,455 shares at September 30, 2004 and 9,255,955 shares at June 30, 2004	(265,786)	(244,026)
Retained earnings	422,747	409,401
Accumulated other comprehensive income (note 10)	1,084	600
Total shareholders' equity	448,563	456,140
Total liabilities and shareholders' equity	\$ 659,156	\$ 658,367

See accompanying notes to consolidated financial statements.

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(In thousands, except per share data)

	Three Months Ended September 30,	
	2004	2003
	(as restated, see note 3)	
Net sales	\$ 230,346	\$ 222,765
Cost of sales	119,964	114,333
Gross profit	110,382	108,432

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	Three Months Ended September 30,	
Operating expenses:		
Selling	43,196	44,615
General and administrative	36,398	35,907
Restructuring and impairment charges (note 6)	(167)	(264)
	<hr/>	<hr/>
Total operating expenses	79,427	80,258
	<hr/>	<hr/>
Operating income	30,955	28,174
Interest and other miscellaneous income, net	(55)	2,211
Interest and other related financing costs	149	141
	<hr/>	<hr/>
Income before income taxes	30,751	30,244
Income tax expense	11,993	11,554
	<hr/>	<hr/>
Net income	\$ 18,758	\$ 18,690
	<hr/>	<hr/>
<u>Per share data (note 9):</u>		
Basic earnings per common share:		
Net income per basic share	\$ 0.52	\$ 0.50
	<hr/>	<hr/>
Basic weighted average common shares	36,211	37,227
Diluted earnings per common share:		
Net income per diluted share	\$ 0.51	\$ 0.49
	<hr/>	<hr/>
Diluted weighted average common shares	37,098	38,247

See accompanying notes to consolidated financial statements.

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(In thousands)

	Three Months Ended September 30, 2004		2003	
	<hr/>	<hr/>	<hr/>	<hr/>
(as restated, see note 3)				
Operating activities:				
Net income	\$ 18,758	\$ 18,690		
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	5,409	5,386		
Compensation expense (benefit) related to restricted stock award	79	66		
Provision (benefit) for deferred income taxes	1,381	1,860		
Restructuring and impairment charges (credits)	(167)	(264)		
(Gain) loss on disposal of property, plant and equipment	200	(1,129)		
Other	14	12		
Change in assets and liabilities, net of the				

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	Three Months Ended September 30,	
effects of acquired and divested businesses:	1,035	(1,699)
Accounts receivable		
Inventories	7,701	7,910
Prepaid expenses and other current assets	1,117	3,681
Other assets	(924)	272
Customer deposits	3,947	6,511
Accounts payable	3,069	7,569
Accrued expenses and other current liabilities	(4,302)	1,137
Other long-term liabilities	49	469
Net cash provided by operating activities	37,366	50,471
Investing activities:		
Purchases of short-term investments	--	(18,000)
Proceeds from sale of short-term investments	--	2,500
Proceeds from the disposal of property, plant and equipment	34	3,425
Capital expenditures	(7,480)	(4,509)
Acquisitions	(54)	--
Other	338	35
Net cash used in investing activities	(7,162)	(16,549)
Financing activities:		
Payments on long-term debt and capital leases	(42)	(53)
Net proceeds from issuance of common stock	183	861
Dividends paid	(3,664)	(2,614)
Payments to acquire treasury stock	(18,573)	--
Net cash used in financing activities	(22,096)	(1,806)
Effect of exchange rate changes on cash	324	13
Net increase (decrease) in cash and cash equivalents	8,432	32,129
Cash and cash equivalents - beginning of year	27,528	54,356
Cash and cash equivalents - end of period	\$ 35,960	\$ 86,485

See accompanying notes to consolidated financial statements.

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity
Three Months Ended September 30, 2004 (Restated)
(In thousands, except share data)

	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance at June 30, 2004 (as previously reported)	\$ 458	\$ 289,707	\$ (244,026)	\$ 600	\$ 414,041	\$ 460,780
Prior year adjustment (see note 3)	--	--	--	--	(4,640)	(4,640)
Balance at June 30, 2004 (1)	\$ 458	\$ 289,707	\$ (244,026)	\$ 600	\$ 409,401	\$ 456,140

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	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Issuance of 10,951 shares of common stock upon the exercise of stock options and restricted stock award compensation	--	262	--	--	--	262
Purchase of treasury stock	--	--	(21,760)	--	--	(21,760)
Tax benefit associated with the exercise of employee stock options	--	91	--	--	--	91
Dividends declared on common stock	--	--	--	--	(5,412)	(5,412)
Other comprehensive income (note 10)						