ETHAN ALLEN INTERIORS INC
Form 10-Q
May 01, 2013

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

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. [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 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act

Large accelerated filer	[ ]	Accelerated filer	[X]
Non-accelerated filer	[ ]	Smaller reporting company	[ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).[ ] Yes[X] No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
At April 23, 2013, there were 28,904,463 shares of Class A Common Stock,
par value $.01, outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Consolidated Balance Sheets
(In thousands)

	March 31, 2013 (Unaudited)	June 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$83,645	$79,721
Marketable securities	18,176	9,005
Accounts receivable, less allowance for doubtful accounts of $1,200 at March 31, 2013 and $1,250 at June 30, 2012	11,344	14,919
Inventories	142,041	155,739
Prepaid expenses and other current assets	22,580	23,408
Total current assets	277,786	282,792
Property, plant and equipment, net	294,080	295,695
Goodwill and other intangible assets	45,128	45,128
Restricted cash and investments	15,430	15,416
Other assets	5,882	5,757
Total assets	$638,306	$644,788
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$469	$250
Customer deposits	59,532	65,465
Accounts payable	25,416	27,315
Accrued compensation and benefits	24,175	30,534
Accrued expenses and other current liabilities	26,064	27,513
Total current liabilities	135,656	151,077
Long-term debt	154,836	154,250
Other long-term liabilities	18,664	17,593
Total liabilities	309,156	322,920
Shareholders' equity:		
Class A common stock	486	485
Additional paid-in-capital	363,375	361,165
Less: Treasury stock (at cost)	(584,041)	(584,041)
Retained earnings	547,502	542,918
Accumulated other comprehensive income	1,613	1,141
Total Ethan Allen Interiors Inc. shareholders' equity	328,935	321,668
Noncontrolling interests	215	200
Total shareholders' equity	329,150	321,868
Total liabilities and shareholders' equity	$638,306	$644,788

See accompanying notes to consolidated financial statements.

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Unaudited)
(In thousands, except per share data)

	Three months ended March 31,		Nine months ended March 31,	
	2013	2012	2013	2012
Net sales	$168,144	$175,861	$546,832	$544,057
Cost of sales	76,359	81,586	246,827	253,678
Gross profit	91,785	94,275	300,005	290,379
Selling, general and administrative expenses	83,125	86,488	256,034	255,016
Operating income	8,660	7,787	43,971	35,363
Interest and other miscellaneous income, net	(10)	157	192	362
Interest and other related financing costs	2,195	2,189	6,592	6,814
Income before income taxes	6,455	5,755	37,571	28,911
Income tax expense (benefit)	2,081	(21,793)	13,287	(13,484)
Net income	$4,374	$27,548	$24,284	$42,395
Per share data:				
Basic earnings per common share:				
Net income per basic share	$0.15	$0.95	$0.84	$1.47
Basic weighted average common shares	28,869	28,857	28,850	28,813
Diluted earnings per common share:				
Net income per diluted share	$0.15	$0.94	$0.83	$1.46
Diluted weighted average common shares	29,273	29,236	29,213	29,085
Comprehensive income:				
Net income	$4,374	$27,548	$24,284	$42,395
Other comprehensive income				
Currency translation adjustment	300	1,774	440	(467)
Other	7	(34)	47	(35)
Other comprehensive income (loss) net of tax	307	1,740	487	(502)
Comprehensive income	$4,681	$29,288	$24,771	$41,893

See accompanying notes to consolidated financial statements.

ETHAN ALLEN INTERIORS INC.

Consolidated Statements of Cash Flows (Unaudited)
(In thousands)

	Nine months ended March 31, 2013	2012
Operating activities:		
Net income	$24,284	$42,395
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,514	14,092
Compensation expense related to share-based payment awards	1,115	1,218
Provision (benefit) for deferred income taxes	597	(20,501)
(Gain) loss on disposal of property, plant and equipment	3,696	1,645
Other	172	193
Change in operating assets and liabilities, net of effects of acquired businesses:		
Accounts receivable	2,855	(3,108)
Inventories	13,808	946
Prepaid and other current assets	2,054	(2,497)
Customer deposits	(6,567)	(1,622)
Accounts payable	(1,899)	(303)
Accrued expenses and other current liabilities	(8,241)	(3,519)
Other assets and liabilities	(943)	(1,106)
Net cash provided by operating activities	44,445	27,833
Investing activities:		
Proceeds from the disposal of property, plant & equipment	3,226	1,792
Change in restricted cash and investments	(14)	981
Capital expenditures	(16,545)	(19,836)
Acquisitions	(598)	(520)
Purchases of marketable securities	(17,547)	(3,290)
Sales of marketable securities	7,990	4,675
Other investing activities	1,333	773
Net cash used in investing activities	(22,155)	(15,425)
Financing activities:		
Payments on long-term debt and capital lease obligations	(187)	(12,145)
Purchases and retirements of company stock	-	(847)
Payment of cash dividends	(19,617)	(6,046)
Other financing activities	1,423	500
Net cash used in financing activities	(18,381)	(18,538)
Effect of exchange rate changes on cash	15	741
Net increase (decrease) in cash & cash equivalents	3,924	(5,389)
Cash & cash equivalents at beginning of period	79,721	78,519
Cash & cash equivalents at end of period	$83,645	$73,130

See accompanying notes to consolidated financial statements.

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity
Nine Months Ended March 31, 2013
(Unaudited)
(In thousands)

	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Retained Earnings	Non-Controlling Interests	Total
Balance at June 30, 2012	$ 485	$ 361,165	$ (584,041)	$ 1,141	$ 542,918	$ 200	$ 321,868
Issuance of common shares upon the exercise of share-based awards	1	1,256	-	-	-	-	1,257
Compensation expense associated with share-based awards	-	1,115	-	-	-	-	1,115
Tax benefit associated with exercise of share based awards	-	(161)	-	-	-	-	(161)
Dividends declared on common stock	-	-	-	-	(19,700)	-	(19,700)
Comprehensive income	-	-	-	472	24,284	15	24,771
Balance at March 31, 2013	$ 486	$ 363,375	$ (584,041)	$ 1,613	$ 547,502	$ 215	$ 329,150

See accompanying notes to consolidated financial statements.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)

(1) Basis of Presentation

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

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

Our consolidated financial statements include the accounts of a business entity which began operating a new Ethan Allen design center in Florida in fiscal 2012. Our consolidated financial statements include the accounts of this entity because we are a majority shareholder and have the power to direct the activities that most significantly impact the entity’s performance. Noncontrolling interest amounts in the entity, which are immaterial, are included in the Consolidated Statement of Comprehensive Income within interest and other miscellaneous income, net.

For the three and nine months ended March 31, 2013 and 2012, the Company has presented selling, general and administrative expenses as a single line on the Consolidated Statements of Comprehensive Income, to remove information we believe is not meaningful and to improve comparability with peer companies. Selling expenses, general and administrative expenses, and restructuring and impairment charges had previously been presented separately.

(2) Interim Financial Presentation

In our opinion, all adjustments, consisting only of normal recurring adjustments necessary for fair presentation, have been included in the consolidated financial statements. The results of operations for the three and nine months ended March 31, 2013 are not necessarily indicative of results that may be expected for the entire fiscal year. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended June 30, 2012.

(3) Income Taxes

The Company reviews its expected annual effective income tax rates and makes changes on a quarterly basis as necessary based on certain factors such as changes in forecasted annual operating income; changes to actual or forecasted permanent book to tax differences; impacts from future tax audits with state, federal or foreign tax authorities; impacts from tax law changes; or change in judgment as to the realizability of deferred tax assets. The Company identifies items which are not normal and are non-recurring in nature and treats these as discrete events. The tax effect of discrete items is recorded in the quarter in which the discrete events occur. Due to the volatility of these factors, the Company's consolidated effective income tax rate can change significantly on a quarterly basis.

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 and Honduras. As of March 31, 2013, the Company and certain subsidiaries are currently under audit from 2006 through 2010 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. It is reasonably possible that some of these audits may be completed during the next twelve months. It is reasonable to expect that various issues relating to uncertain tax benefits will be resolved within the next twelve months as exams are completed or as statutes expire and will impact the effective tax rate.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)

As a result of losses we sustained for fiscal 2010 and 2009, which were brought on by the severe economic factors which began in fiscal 2009, we recorded a $34.1 million valuation allowance against deferred tax assets, with a non-cash charge to earnings in the fourth quarter of fiscal 2010. At the end of the third quarter of fiscal 2012, our operations had returned to a position of cumulative pre-tax operating profits for the most recent 36 month period, we had eight consecutive quarters of pre-tax operating profits, our written business and backlog had grown significantly, and our business plan projected continued profitability. The preponderance of this positive evidence provides support that our future tax benefits more likely than not will be realized. Accordingly, at the end of the third quarter of fiscal 2012, we released all of United States federal, most of the state, and all of the Canadian valuation allowance against net deferred tax assets. We recorded a tax benefit of $21.6 million for the reversal of the valuation allowance against those assets, with a non-cash benefit to earnings in the quarter ended March 31, 2012.

We retained a valuation allowance against various state and local deferred tax assets in our retail segment. At March 31, 2013 this valuation allowance was approximately $2.3 million.

The Company’s consolidated effective tax rate was 32.2% and 35.4% for the three and nine months ended March 31, 2013, respectively and a negative 378.7% and a negative 46.6% for the three and nine months ended March 31, 2012 respectively. The current quarter effective tax rate primarily includes tax expense on the current quarter’s net income, interest expense on uncertain tax positions, and the impact of maintaining valuation allowances, partly offset by the recognition of some uncertain tax positions. The prior period effective tax rate includes the benefit from the reversal of the valuation allowance, and the recognition of previously unrecognized tax benefits, partly offset by the tax expense on the current quarter’s net income, interest expense on uncertain tax positions, and the impact of maintaining valuation allowances on deferred tax assets in the retail segment.

(4) Restricted Cash and Investments

At both March 31, 2013 and June 30, 2012, we held $15.4 million of restricted cash and investments in lieu of providing letters of credit for the benefit of the provider of our workmen’s compensation and other insurance and for the benefit of the issuer of our private label credit card. These funds can be invested in high quality money market mutual funds, U.S. Treasuries and U.S. Government agency fixed income instruments, and cannot be withdrawn without the prior written consent of the secured party. These assets are carried at cost, which approximates market value and are classified as long-term assets because they are not expected to be used within one year to fund operations. See also Note 12, “Fair Value Measurements".

(5) Marketable Securities

At March 31, 2013 and June 30, 2012, the Company held marketable securities of $18.2 million and $9.0 million respectively, classified as current assets, consisting of U.S. municipal and corporate bonds with maturities ranging from less than one year to less than two years, which were rated A/A2 or better by the rating services Standard & Poors (“S&P”) and Moodys Investors Service (“Moodys”) respectively. There have been no material realized or unrealized gains or losses for the nine months ended March 31, 2013 and March 31, 2012. We do not believe there are any impairments considered to be other than temporary at March 31, 2013. Also see Note 12, “Fair Value Measurements"

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)

(6) Inventories

Inventories at March 31, 2013 and June 30, 2012 are summarized as follows (in thousands):

	March 31, 2013	June 30, 2012
Finished goods	$112,510	$119,978
Work in process	6,929	8,638
Raw materials	22,602	27,123
	$142,041	$155,739

Inventories are presented net of a related valuation allowance of $2.9 million at March 31, 2013 and $2.7 million at June 30, 2012.

(7) Borrowings

Total debt obligations at March 31, 2013 and June 30, 2012 consist of the following (in thousands):

	March 31, 2013	June 30, 2012
5.375% Senior Notes due 2015	$153,078	$152,986
Capital leases and other	2,227	1,514
Total debt	155,305	154,500
Less current maturities	469	250
Total long-term debt	$154,836	$154,250

In September 2005, we issued $200.0 million in ten-year senior unsecured notes due 2015 (the "Senior Notes"). The Senior Notes were issued by Global, bearing an annual coupon rate of 5.375% with interest payable semi-annually in arrears on April 1 and October 1. We have used the net proceeds of $198.4 million to improve our retail network, invest in our manufacturing and logistics operations, and for other general corporate purposes. During the full fiscal years 2012 and 2011, the Company reduced its Senior Notes by an aggregate face value of $46.6 million through unsolicited purchases.

We also maintain a $50 million senior secured, asset-based revolving credit facility (the “Facility”). We have not had any revolving loans under the Facility at any time. At March 31, 2013 and June 30, 2012, there were $0.6 million of standby letters of credit outstanding under the Facility. The Facility is subject to borrowing base availability and includes a right for the Company to increase the total facility to $100 million subject to certain conditions. The Facility is secured by all property owned, leased or operated by the Company in the United States excluding any real property owned by the Company and contains customary covenants which may limit the Company’s ability to incur debt, engage in mergers and consolidations, make restricted payments (including dividends), sell certain assets, and make investments. Remaining availability under the Facility totaled $49.4 million at March 31, 2013 and at June 30, 2012 and as a result, covenants and other restricted payment limitations did not apply. The Facility expires March 25, 2016, or June 26, 2015 if the Senior Notes have not been refinanced prior to that date.

At March 31, 2013 and June 30, 2012, we were in compliance with all covenants of the Senior Notes and the Facility.

(8) Litigation

Environmental Matters

We and our subsidiaries are subject to various environmental laws and regulations. Under these laws, we and/or our subsidiaries are, or may be, required to remove or mitigate the effects on the environment of the disposal or release of certain hazardous materials. As of March 31, 2013 and June 30, 2012, we believe that the Company was adequately reserved. We believe our currently anticipated capital expenditures for environmental control facility matters are not material.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)

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

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

(9) Share-Based Compensation

During the nine months ended March 31, 2013, the Company awarded options to purchase 74,082 shares of our common stock with a weighted average exercise price per share of $22.42, a weighted average fair value per share of $9.96 and vesting periods ranging from three to four years. During the nine months ended March 31, 2013, options covering 623,500 shares of common stock were cancelled, primarily due to the expiration of their 10 year term. At March 31, 2013, there are 1,055,682 shares of common stock available for future issuance pursuant to the 1992 Stock Option Plan.

(10) Earnings Per Share

Basic and diluted earnings per share are calculated using the following weighted average share data (in thousands):

	Three months ended March 31,		Nine months ended March 31,	
	2013	2012	2013	2012
Weighted average common shares outstanding for basic calculation	28,869	28,857	28,850	28,813
Effect of dilutive stock options and other share-based awards	404	379	363	272
Weighted average common shares outstanding adjusted for dilution calculation	29,273	29,236	29,213	29,085

As of March 31, 2013 and 2012, stock options to purchase 885,600 and 1,540,000 common shares, respectively, were excluded from the respective diluted earnings per share calculation because their impact was anti-dilutive.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)

(11) Comprehensive Income

Our accumulated other comprehensive income, which is comprised of losses on certain derivative instruments, accumulated foreign currency translation adjustments, and unrealized gain and loss on investments, totaled $1.6 million at March 31, 2013 and $1.1 million at June 30, 2012. Foreign currency translation adjustments are the result of changes in foreign currency exchange rates related to our operations in Canada, Mexico, Honduras and Belgium. Foreign currency translation adjustments exclude income tax expense (benefit) given that the earnings of non-U.S. subsidiaries are deemed to be reinvested for an indefinite period of time. Beginning with the first quarter of fiscal 2013, the company reports comprehensive income in a single continuous statement of comprehensive income. See also Note 14, “Recently Issued Accounting Pronouncements”.

(12) Fair Value Measurements

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 is calculated based on assumptions that market participants use in pricing the asset or liability, and 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 three levels, determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1 Inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.

Level 2 Inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Inputs are generally unobservable and typically reflect management’s estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents our assets and liabilities measured at fair value on a recurring basis at March 31, 2013 and June 30, 2012 (in thousands):

	March 31, 2013			
	Level 1	Level 2	Level 3	Balance
Cash equivalents	$99,075	$-	$-	$99,075
Available-for-sale securities	-	18,176	-	18,176
Total	$99,075	$18,176	$-	$117,251

	June 30, 2012			
	Level 1	Level 2	Level 3	Balance
Cash equivalents	$95,137	$-	$-	$95,137
Available-for-sale securities	-	9,005	-	9,005
Total	$95,137	$9,005	$-	$104,142

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 the first nine months of fiscal 2013 or fiscal 2012. At both March 31, 2013 and June 30, 2012, $15.4 million of the cash equivalents were restricted, and classified as a long-term asset.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)

At March 31, 2013, available-for-sale securities consist of $16.7 million in U.S. municipal bonds and $1.5 million of corporate bonds, and at June 30, 2012, available-for-sale securities consisted of $7.5 million in U.S. municipal bonds and $1.5 million of corporate bonds, all with maturities of less than two years. The bonds are rated A/A2 or better by S&P/Moodys respectively. As of March 31, 2013 and June 30, 2012, there were no material gross unrealized gains or losses on available-for-sale securities.

As of March 31, 2013 and June 30, 2012, the contractual maturities of our available-for-sale securities were as follows:

March 31, 2013

	Cost	Estimated Fair Value
Due in one year or less	$15,053	$14,987
Due after one year through five years	$3,183	$3,189

June 30, 2012

	Cost	Estimated Fair Value
Due in one year or less	$6,999	$6,862
Due after one year through five years	$2,130	$2,143

No investments have been in a continuous loss position for more than one year, and no other-than-temporary impairments were recognized. Also see Note 4, "Restricted Cash and Investments" and Note 5, "Marketable Securities".

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

We measure certain assets at fair value on a non-recurring basis. These assets are recognized at fair value when they are deemed to be impaired. During the nine month period ended March 31, 2013 we recorded a $1.6 million impairment against assets held for sale, and during the nine months ended March 31, 2012, we did not record any impairments on those assets required to be measured at fair value on a non-recurring basis.

(13) Segment Information

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

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

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

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

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)

We evaluate performance of the respective segments based upon revenues and operating income. While the manner in which our home furnishings and accessories are marketed and sold is consistent, the nature of the underlying recorded sales (i.e. wholesale versus retail) and the specific services that each operating segment provides (i.e. wholesale manufacturing, sourcing, and distribution versus retail selling) are different. Within the wholesale segment, we maintain revenue information according to each respective product line (i.e. case goods, upholstery, or home accessories and other). The allocation of retail sales by product line is reasonably similar to that of the wholesale segment. A breakdown of wholesale sales by these product lines for the three and nine months ended March 31, 2013 and 2012 is provided as follows:

	Three months ended March 31,		Nine months ended March 31,	
	2013	2012	2013	2012
Case Goods	36 %	39 %	37 %	39 %
Upholstered Products	48 %	43 %	48 %	44 %
Home Accessories and Other	16 %	18 %	15 %	17 %
	100 %	100 %	100 %	100 %

Segment information for the three and nine months ended March 31, 2013 and 2012 is provided below (in thousands):

	Three months ended March 31,		Nine months ended March 31,	
	2013	2012	2013	2012
Net sales:				
Wholesale segment	$108,101	$121,044	$327,690	$344,069
Retail segment	132,056	131,402	432,962	415,687
Elimination of inter-company sales	(72,013)	(76,585)	(213,820)	(215,699)
Consolidated Total	$168,144	$175,861	$546,832	$544,057
Operating income (loss):				
Wholesale segment	$12,754	$18,191	$37,651	$49,584
Retail segment	(2,283)	(6,549)	4,782	(10,578)
Adjustment of inter-company profit (1)	(1,811)	(3,855)	1,538	(3,643)
Consolidated Total	$8,660	$7,787	$43,971	$35,363
Depreciation & Amortization:				
Wholesale segment	$2,135	$1,733	$6,116	$5,717
Retail segment	2,413	2,777	7,398	8,375
Consolidated Total	$4,548	$4,510	$13,514	$14,092
Capital expenditures:				
Wholesale segment	$1,381	$1,366	$6,024	$9,769
Retail segment	1,599	7,078	10,521	10,067
Acquisitions	-	520	598	520
Consolidated Total	$2,980	$8,964	$17,143	$20,356

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)

	March 31, 2013	June 30, 2012
Total Assets:		
Wholesale segment	$305,171	$309,573
Retail segment	362,950	366,594
Inventory profit elimination (2)	(29,815)	(31,379)
Consolidated Total	$638,306	$644,788

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

At both March 31 of 2013 and 2012, there were 86 independent retail design centers located outside the United States. Approximately 5.4% of our net sales during the current nine months were derived from sales to international retail design centers compared with 6.5% in the comparable prior year period.

(14) Recently Issued Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (“FASB”) issued ASU 2011-05, “Presentation of Comprehensive Income”. This ASU increases the prominence of items reported in other comprehensive income by eliminating the option to present components of other comprehensive income as part of the statement of changes in stockholders’ equity. The amendment requires that all non-owner changes in stockholders’ equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments do not change the items that must be reported in other comprehensive income. The Company adopted this ASU in the first quarter of fiscal 2013 and included a single continuous statement.

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

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

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)

The following tables set forth the condensed consolidating balance sheets as of March 31, 2013 and June 30, 2012, the condensed consolidating statements of operations for the three and nine months ended March 31, 2013 and 2012, and the condensed consolidating statements of cash flows for the nine months ended March 31, 2013 and 2012 of the Parent, the Issuer, the Guarantors and the Non-Guarantors.

CONDENSED CONSOLIDATING BALANCE SHEET
(In thousands)
March 31, 2013

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Assets						
Current assets:						
Cash and cash equivalents	$-	$67,474	$13,001	$ 3,170	$-	$ 83,645
Marketable securities	-	18,176	-	-	-	18,176
Accounts receivable, net	-	11,112	231	1	-	11,344
Inventories	-	-	166,520	5,336	(29,815)	142,041
Prepaid expenses and other current assets	-	8,062	12,744	1,774	-	22,580
Intercompany receivables	-	844,039	295,163	(8,372)	(1,130,830)	-
Total current assets	-	948,863	487,659	1,909	(1,160,645)	277,786
Property, plant and equipment, net	-	9,656	267,586	16,838	-	294,080
Goodwill and other intangible assets	-	37,905	7,223	-	-	45,128
Restricted cash and investments	-	15,430	-	-	-	15,430
Other assets	-	3,507	1,558	817	-	5,882
Investment in affiliated companies	678,728	(112,156)	-	-	(566,572)	-
Total assets	$678,728	$903,205	$764,026	$ 19,564	$(1,727,217)	$ 638,306
Liabilities and Shareholders' Equity						
Current liabilities:						
Current maturities of long-term debt	$-	$-	$469	$ -		