

Rob Furlong, CFA
410.318.5015
furlong@garpresearch.com

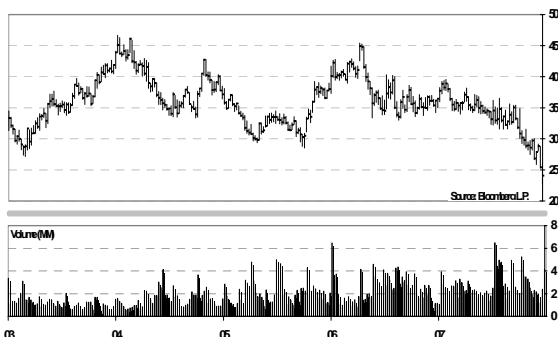
Ethan Allen

Neutral

January 15, 2008

ETH - \$24

Market Cap: \$705 million



We are downgrading Ethan Allen (ETH) to Neutral from Buy based on our tempered outlook for the furniture industry. We view Ethan Allen as one of the best players in a challenging business up against a tough macro environment, and thus are not taking an outright negative stance.

Announces Restructuring, Store Closings

On January 10th, Ethan Allen announced that it planned to close twelve retail locations and two service centers. This will affect 175 employees, half of which are expected to transfer to nearby locations. During the second half of FY08 (ending June 08), the company expects to incur roughly \$10 million of pre-tax restructuring charges, most of which are non-cash. Additionally, Ethan Allen owns the property for five of the twelve locations, and the sale of this land should bring in pre-tax gains of just under \$5 million.

Management also hinted at flat sales of \$260 million for its second quarter outlook, with operating margins suffering by up to 200 basis points year-over-year. We are now forecasting EPS of 67¢.

Strong Economic Headwinds

While we like the company's long-term strategy of differentiating itself by emphasizing interior design services, we believe that this upscale offering will face a strong headwind as the economy contracts. This, coupled with a dismal outlook for home sales over the next year or two (or more according to some) could provide tough sledding for the company. While the valuation is cheap (10x current earnings), we foresee earnings declines for the next several quarters. Furthermore, we believe that the impact could be greater than anticipated by management if the traffic from the eliminated stores does not migrate to remaining locations.

Company Description:

Ethan Allen is a leading manufacturer and retailer of quality home furnishings and accessories. The company features a network of 305 stores (160 company-owned and 145 independent dealerships) and 9 manufacturing plants. The company's products fall into three generic furniture categories: case goods (55% of sales), upholstered products (35%), and accessories (10%).

Operating & Financial Highlights

(\$ Millions, Adjusted for Certain Items, June FY)

	2007	2008F	2009F	2010F
Sales	1,005	1,020	1,030	1,070
Operating Income	124	112	111	124
Diluted Shares	32	30	29	28
EPS	\$2.37	\$2.33	\$2.40	\$2.75
P/E	10	10	10	9
Operating Margins	12%	11%	11%	12%
Capital Employed	465	515	554	575
Pretax ROCE	27%	22%	20%	22%
Pretax ROTCE	33%	26%	24%	26%

FY07 Estimated Quarterly Results

	Q1F	Q2F	Q3F	Q4F
Sales	249	260	245	266
EPS	\$0.57	\$0.67	\$0.50	\$0.59

GARP's Quintile Ranking System



ETH scores in GARP's least attractive growth quintile and most attractive valuation quintile. See disclaimer for additional information.

Ethan Allen

Fiscal Year June 30

Operating & Financial Highlights

(\$ Millions, Adjusted for Certain Items)

	2003	2004	2005	2006	2007	2008F	2009F	2010F
Revenue	907.3	955.1	949.0	1,066.4	1,005.3	1,020.0	1,030.0	1,070.0
Operating Income	133.8	140.3	129.0	146.9	124.5	112.0	111.0	124.0
Net Income	83.6	88.0	79.3	88.2	76.3	70.0	69.5	77.0
Avg Shares Outstanding- Diluted	38.6	38.3	36.2	34.1	32.3	30.0	29.0	28.0
EPS - Diluted	\$2.17	\$2.30	\$2.19	\$2.59	\$2.37	\$2.33	\$2.40	\$2.75
Diluted EPS Without FAS 123R				\$2.59	\$2.37	\$2.33	\$2.40	\$2.75
<i>Capital Employed</i>								
Property Plant & Equipment	289.4	277.0	275.2	294.2	322.2	358.2	385.2	406.2
Operating Working Capital	144.6	136.1	131.8	104.4	87.2	117.0	123.0	123.0
Other / Intangibles	32.0	29.4	36.2	47.8	55.3	45.0	46.0	46.0
total	466.0	442.5	443.1	446.3	464.6	520.2	554.2	575.2
<i>Financing</i>								
Debt	10.2	9.2	12.5	202.7	202.8	205.0	205.0	207.0
Shareholders Equity (Less: Cash)	537.7 (81.9)	460.8 (27.5)	434.1 (3.4)	417.4 (173.8)	409.6 (147.8)	414.6 (99.4)	412.1 (62.9)	415.1 (46.9)
total	466.0	442.5	443.1	446.3	464.6	520.2	554.2	575.2
<i>Ratios (%)</i>								
Operating Margin	14.7%	14.7%	13.6%	13.8%	12.4%	11.0%	10.8%	11.6%
Return on Capital Employed	28.7%	31.7%	29.1%	32.9%	26.8%	21.5%	20.0%	21.6%
Return on Tangible Capital	34.6%	38.7%	35.8%	41.0%	33.5%	26.2%	24.2%	25.9%
Shareholders Equity / Capital	115.4%	104.1%	98.0%	93.5%	88.2%	79.7%	74.4%	72.2%
<i>Valuation</i>								
Price Earnings Multiple			10.9	9.3	10.1	10.3	10.0	8.7
<i>Segment Estimates</i>								
Revenue								
Wholesale	661.0	673.8	663.2	736.1	656.0	725.0	750.0	751.0
Retail	526.4	576.2	586.2	691.0	698.6	740.0	740.0	770.0
Inter-segment Elimination	(280.1)	(294.9)	(300.4)	(360.7)	(349.3)	(400.0)	(420.0)	(419.0)
Other	0.0	0.0	0.0	0.0	0.0	(45.0)	(40.0)	(32.0)
total	907.3	955.1	949.0	1,066.4	1,005.3	1,020.0	1,030.0	1,070.0
Operating Income								
Wholesale	122.5	120.6	115.9	127.2	110.5	125.0	130.0	135.0
Retail	14.6	13.1	12.8	19.7	14.0	23.0	48.0	56.0
Inter-segment Elimination	(3.3)	6.6	0.3	0.0	0.0	0.0	0.0	1.0
Corporate / Other	0.0	0.0	(0.0)	0.0	(0.0)	(36.0)	(67.0)	(68.0)

Copyright © 2008, GARP Research & Securities Co. All rights reserved.

GARP Research & Securities Co. (“GARP Research”) is a dually registered broker dealer and investment adviser, a member organization of FINRA and SIPC, and accredited member of the Investorside Research Association. GR&S is an independent research firm that provides research to institutional investors. Weedflower, Inc., a registered investment adviser, serves as the investment manager to the Gaineswood Fund, LP (the “Partnership”) and has discretionary investment authority over the Partnership’s assets. GARP Capital, LLC is the general partner for Partnership. GARP Research & Securities Co., Weedflower, Inc., GARP Capital, LLC, and the Gaineswood Fund, LP (collectively “GARP”) are under common ownership and control.



The Investorside Research Association certifies its members have no investment banking conflicts.

GARP Research, its advisory clientele, their partners, principals, officers, employees and affiliates may hold positions in or options on the securities discussed.

The information contained herein has been obtained from sources believed reliable but is not necessarily complete and accuracy is not guaranteed. Opinions expressed are subject to change without notice and do not constitute solicitation of orders. Within the body of this and previous reports GARP Research & Securities Co. attempts to examine competitive threats, secular and cyclical demand shifts, or financial considerations which can impose risk upon its clients.

The table below lists all holdings by GARP Research analysts and/or their family members of GARP-rated stocks. Outside of this ownership disclosed in the table below, the analysts are not aware of any other material conflict of interest. Likewise, GARP Research & Securities Co. does not hold a position in any stocks. GARP Research & Securities Co. does not make a market in any securities.

Analyst Ownership in GARP Recommended Securities	
Analyst	Ownership
Jeff Burnett	E*Trade
Brett Carson	Cosi, ICON Plc., International Rectifier, PPD Inc., Synopsys
Seth Dadds	Ameritrade, Cree, E*Trade, Illumina
Rob Furlong	Analog Devices, Cosi, Flextronics, Sangamo, Taser International, ZipRealty
Alastair Mackay	None
George Sakellaris	Gevity HR, ZipRealty, Cree, EW Scripps, International Rectifier, Sangamo, Cosi, Gemstar-TV Guide

Additional information is available upon request by contacting GARP Research & Securities Co.’s Chief Compliance Officer at (410) 318-5018.

GARP Research is mostly a fundamental equity research product. We utilize a BUY, NEUTRAL, and AVOID (SELL) rating system based on an approach balancing growth against valuation with a proprietary matrix. The percentage of BUY, NEUTRAL, and AVOID ratings was recently 70-75%, 20-25%, and 0-5%, respectively. GARP Research does not conduct corporate finance activities in the stocks it covers, and does not plan to conduct such activities in the foreseeable future. The model keys off of projections of per diluted share earnings over a three year time horizon, which in some cases involves the use of certain pro forma adjustments to GAAP. Another important consideration is whether the underlying company possesses

characteristics consistent with GARP’s investment philosophy, in particular the firm’s methods of assessing quality (through competitive assessment and current or projected return on invested capital) and control of risk (technical analysis and quantitative measures). Ratings may also take into account growth beyond terminus years and capital gains taxation.

Reasonable valuation is essential to BUY recommendations. Companies with annual growth rates as low as 9% if valuation is 10x out-year earnings or lower could qualify, but faster growing firms are permitted higher valuations, such as a multiple of less than 16x out-year EPS for a 17% growth rate. There are other combinations of growth rates and earnings multiples that represent a frontier that delineates attractive versus unattractive equities, but our model is not purely linear. For example, near the “middle” of these outliers would be firms that trade at 10x to 12x out-year earnings whose earnings growth rate approaches 12% or better. A NEUTRAL rating occurs when valuation lies below this EPS-growth frontier, or our assessment of quality or risk elicits caution. A rating of AVOID is defined by a boundary whose maximum constraint is having a PE multiple of over 16x out-year EPS, and growth of less than 12%. Also, substantive non-quantitative risks may be a requisite before an AVOID rating is assigned. In our valuation analysis, we may take into account cash per share, new accounting standards, pro forma earnings or cash flow adjustments, or other items that create deviation from standard calculations. Ratings are also often maintained once equity shifts into a higher or lower quintile in order to avoid excessive reclassifications due to volatility near break points. Ratings of appreciated securities might also be maintained because we are aware that our “out-year” could shift, thereby reestablishing an attractive quintile score simply through the passage of time. Moreover, long-term technical analysis may be used to aid in decisions regarding the classification of a stock, particularly when volatility near a break point has been experienced. Additional information is available upon request.

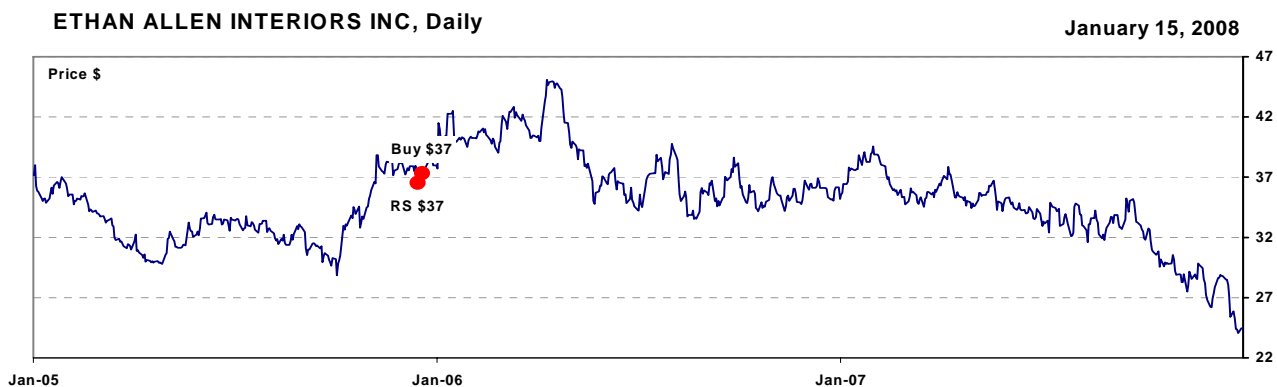
Past performance is not indicative of future results.

Analyst Certification

All of the views expressed in the report accurately reflect the personal views of the research analyst about any and all of the subject companies. No part of the compensation of the research analyst named herein was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the research analyst in this report. Neither the research analyst nor a member of the analyst’s household serves as an officer, director or advisory board member of any company mentioned in the report.

Seth Dadds

Price Chart and Recommendation History as of January 15, 2008



RS - New Rating System
 Coverage initiated on May 18, 2001 at \$37 (adjusted for one-time large dividends and/or splits).

Source: Bloomberg L.P.

GARP Research & Securities Co.
2800 Quarry Lake Drive, Suite 140
Baltimore, Maryland 21209

Main: (410) 764-1300
Fax: (410) 318-5048
www.garpresearch.com

INVESTMENT RESEARCH & INSTITUTIONAL SALES

Jeff Burnett	burnett@garpresearch.com	410-318-5014
Brett Carson, CFA	carson@garpresearch.com	410-318-5031
Seth Dadds	dadds@garpresearch.com	410-318-5021
Robert Furlong, CFA	furlong@garpresearch.com	410-318-5015
Alistair Mackay, Ph.D.	mackay@garpresearch.com	410-318-5022
Seth Moshman, CPA	moshman@garpresearch.com	410-318-5017
George Sakellaris, CFA	sakellaris@garpresearch.com	410-318-5016

PUBLICATIONS

More information about our firm, our coverage our research and our performance history can be found on our website, or by typing **GRCO <Go>** on **Bloomberg**.

Entitled clients can access our research on **Thomson, Reuters, Bloomberg, Capital IQ, Factset** and **Zacks Investment Research**. Please contact us should you need proper entitlement for access.

INSTITUTIONAL EQUITY TRADING INSTRUCTIONS

GARP Research, Inc., a FINRA-registered broker dealer. We offer several ways to facilitate the payment of our investment research services.

Commission Sharing Agreements:

GARP Research has Commission Sharing Agreements (CSA's) with **Lehman Brothers, Citigroup, Goldman Sachs,** and **Instinet**. Institutional clients can place orders through their normal trading contacts at these firms and direct commission dollars to our firm in payment for our research services.

Bear Stearns & Co.:

GARP Research also clears through Bear Stearns Securities Corp. on a fully-disclosed basis. Orders can be placed through any existing coverage at Bear Stearns institutional trading desks. When placing orders, please specify that the order is for the "credit of GARP Research – Office 504". Please use DTC number 352. Our Broker/Dealer number is 58712.

If you have any questions, please call Seth Moshman or Jeff Burnett.