

ETHAN ALLEN®

THE MARKET

The home furnishings industry is a \$75 billion market, fueled by heightened consumer interest in home decorating. The furniture category is primarily segmented into manufacturers and local or regional furniture retailers.

In this environment, Ethan Allen has differentiated itself by being both a manufacturer and retailer, with Ethan Allen product sold exclusively in over 300 Ethan Allen-branded store locations. With its unique, vertically integrated business model, the company oversees all aspects of its business, from product design and manufacturing to retail and delivery. Today, Ethan Allen offers a wide range of designs, including both classic and casual styles; superior service; and a commitment to helping consumers make decorating fun and easy.

ACHIEVEMENTS

A foyer . . . a family room . . . the master suite . . . a home office. For more than seven decades, the stylish, quality-crafted home furnishings of Ethan Allen have been admired and welcomed into millions of homes across the globe. What began humbly more than 70 years ago as a small company has evolved into an award-winning, respected,



fiscally strong, and often-emulated leader in the home furnishings industry.

Thanks to a belief in constantly reinventing itself, Ethan Allen, once best known for Early American, Colonial-style furniture, is today fresh



and modern, and seen as a style leader in both casual and classic lifestyles. Widely perceived as a high-quality brand, with a high level of service expectation, Ethan Allen enjoys over 90 percent brand awareness. By closely staying in touch with the ever-changing consumer, Ethan Allen has successfully maintained its brand equity and core values while expanding its consumer base to appeal to a wide range of audiences, including young urban professionals, married suburbanites, and empty nesters, enabling Ethan Allen to achieve and maintain its status as one of the top-five largest home furnishings retailers in the United States.

While some companies that have been in business for over 70 years often become stagnant, Ethan Allen continues to break new ground in the home furnishings industry through its innovations in design, merchandising, marketing, and retailing.

HISTORY

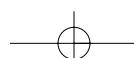
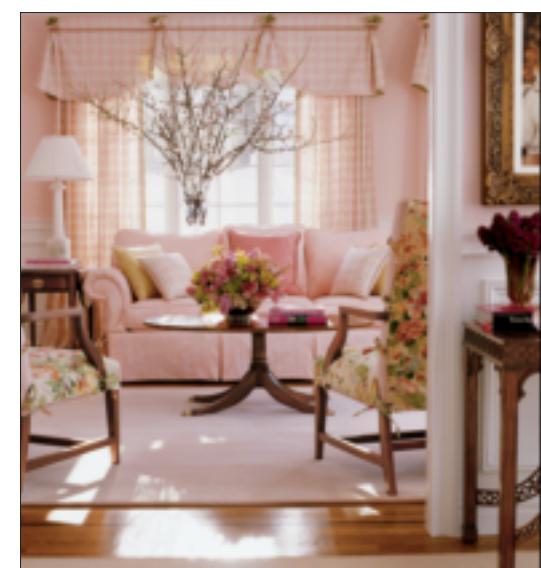
The year was 1932, and Theodore Baumritter and Nathan Ancell had a dream: to create high-quality Colonial-style furniture in the Green Mountains of Vermont. Naming their first line "Ethan Allen" after the legendary Revolutionary War hero, the two entrepreneurs acquired a 150,000-square-foot factory in Beecher Falls, Vermont, laying the groundwork for what would become a national network of manufacturing, retail, and distribution. By 1943, the company had approximately \$10 million in assets, had begun a national advertising campaign, and was operating three sawmills and 11 plants. In addition

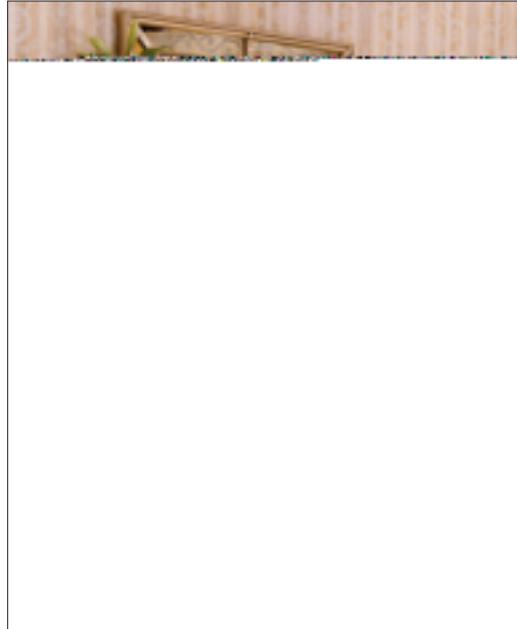
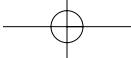
to producing wood products, Ethan Allen expanded its offerings to include metal and upholstered pieces as well.

The 1960s were an innovative time for the company. In 1962, the first consumer catalogue showing inspirational room settings, called the Ethan Allen Treasury, was published for distribution to consumers, thus sparking a history of creative marketing efforts. The following year, the company opened a dealer-run gallery in upstate New York. The opening of this store marked the beginning of Ethan Allen's vertical integration and the first time that furnishings were displayed in room settings, making it easier for consumers to shop in a way that would let them see how their homes could look. By 1967, sales grew to \$50 million, and in 1969 the company went public as Ethan Allen Inc.

During the 1970s, the company's reputation as a manufacturer of stylish, quality-crafted home furnishings became widespread. An enterprising entrepreneur by the name of Farooq Kathwari formed a joint venture with Ethan Allen to develop accessories which gave the consumer the opportunity to select from a spectrum of integrated and correlated products to fully decorate rooms. By 1978, sales surpassed \$200 million with 300 Showcase Galleries.

In 1979, Ethan Allen was acquired by Interco Inc. a Midwest-based retailing group. Over the next five years the company continued to grow, introducing new collections like its popular Country





French line; holding its first dealer conference; making major capital investments, including new manufacturing facilities and upgrading existing plants; and Kathwari becoming president in 1985.

Under Kathwari's leadership, Ethan Allen management, retailers, and a few key investors bought the company back from Interco in 1989 for \$357 million. The 1990s was a decade of reinvention. To stay competitive in the marketplace, the company recognized that it needed to become more accessible. It wasn't enough that parents and grandparents recognized the quality and superior level of service that the company provided. Ethan Allen needed to move forward and cross the generation gap.

The company began introducing products designed to attract a broader consumer base. At the same time, they began updating the facades of their stores, replacing the traditional "carriage house" front with a more modern, linear form, and a sleek new logo.

By the mid-1990s the transformation of the company—which Kathwari took public again in 1993—began to pay off. The variety of styles that Ethan Allen offered started to attract new customers, and the ability of the company to reinvent itself garnered significant media attention. Today, that cycle of reinvention continues.

THE PRODUCT

Ethan Allen's product line includes everything needed to create a beautiful home, from wood furnishings in casual and classic styles and custom upholstery with hundreds of fabrics and leather to choose from to rugs, window treatments, bedcoverings, lighting, decorative accessories—even mattresses and box springs. In addition, Ethan Allen offers several specialty lines, including Kids, Home & Garden, Home Theatre, Home Office, and the recently introduced Bath collections. This extensive, quality-crafted product line has differentiated the company in a market marked by sameness and commoditization.

But Ethan Allen does more than just sell furniture; the company provides solutions. Customers are greeted at the store by an Ethan Allen design consultant, whose goal is to help bring their customers' vision for their home to life and solve their decorating challenges. Ethan Allen design consultants' assistance is complimentary and includes making home calls, creating floor plans, recommending

fabric and finishes, and finally visiting the home again after delivery, if necessary, to ensure that everything is properly placed in the room.

Today, Ethan Allen is more affordable and more accessible than ever. Dedicated to helping its customers live the lifestyle they desire, Ethan Allen's variety of furnishings and custom upholstery, its free design service, its financing options, and its local delivery make the company the leading one-stop



home furnishings resource. With more than 3,000 design consultants, more than 300 stores, state-of-the-art manufacturing facilities, multigeneration craftspeople, a strong retail network, and an intricate distribution system, Ethan Allen has maintained its competitive edge while not losing sight of its primary objective: to make decorating fun and easy.

RECENT DEVELOPMENTS

In 2004, Ethan Allen positioned itself as a provider of "solutions" for the home. The company's "Solutions" campaign illustrated the many ways Ethan Allen makes decorating easier, and supported this strategy with a critically acclaimed direct-mail magazine and well-received national television campaign.

In the same year, the company unveiled its innovative everyday pricing solution, which allows customers to shop with confidence, knowing that they are receiving the company's best price every day. Customers no longer have to wait for a sale to purchase the furnishings they want. In an industry dominated by sale events and discounting, Ethan Allen's bold move to eliminate sales and instead

offer everyday best prices illustrates its commitment to differentiate itself through innovative strategies focused on consumer satisfaction. This pricing strategy has been well-received both by store associates and customers.

PROMOTION

Ethan Allen has worked hard to achieve its status as a premier home furnishings brand. Accomplishing this has required a sophisticated marketing mix of print media, direct mail, and television that communicates the company's unique value. By leveraging the power of the brand's multimillion-dollar annual advertising budget with breakthrough creative messages, Ethan Allen has been able to build and grow its leadership in the marketplace.

BRAND VALUES

Known for style, quality, value, and service, to many consumers, Ethan Allen is a brand they aspire to own, and the company strives to maintain the trust and credibility it has enjoyed throughout the years. The company is driven by 10 leadership principles developed by the CEO, including excellence in service, innovation, and justice. Ethan Allen's culture fosters an entrepreneurial spirit, and the passion of the people behind the brand is the heart of the company.

THINGS YOU DIDN'T KNOW ABOUT ETHAN ALLEN

- In 2004, the company's CEO, Farooq Kathwari, received both Ernst & Young's Entrepreneur of the Year award and IFDA's Innovative Retailer of the Year award, two industry accolades of which this 73-year old company is particularly proud.
- In the last three years alone, over 70 percent of Ethan Allen's product line is new.
- Ethan Allen has also been expanding its global presence and now has stores in over 10 countries, including the United Kingdom, Kuwait, Japan, Mexico, and 11 stores in China. In addition, the company recently expanded its Web presence and began selling a selection of accents online.