ETHAN ALLEN INTERIORS INC
Form 10-Q
April 29, 2019

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, 2019

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.)

25 Lake Avenue Ext., Danbury, Connecticut	**06811-5286**
(Address of principal executive office)	(Zip Code)

(203) 743-8000

(Registrant's telephone number, including area code)

Common stock $0.01 par value	**New York Stock Exchange**	**ETH**
(Title of each class)	(Name of exchange on which registered)	(Trading symbol)

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). [X] Yes [ ] No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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

The number of shares outstanding of the registrant's common stock, $0.01 par value, as of April 17, 2019 was 26,579,544.

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Consolidated Balance Sheets (Unaudited)

(In thousands, except par value)

	March 31, 2019	June 30, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$25,742	$22,363
Accounts receivable, net of reserves of $1,818 at March 31, 2019 and $1,956 at June 30, 2018	15,838	12,364
Inventories	164,625	163,012
Prepaid expenses and other current assets	17,905	16,686
Total current assets	224,110	214,425
Property, plant and equipment, net	260,222	267,903
Goodwill	25,388	25,388
Intangible assets	19,740	19,740
Deferred income taxes	1,641	1,688
Other assets	1,731	1,289
Total assets	$532,832	$530,433
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$19,494	$18,768
Customer deposits	62,393	61,248
Accrued compensation and benefits	22,758	18,926
Short-term debt	544	584
Accrued expenses and other current liabilities	21,263	21,734
Total current liabilities	126,452	121,260
Long-term debt	8,658	1,096
Deferred income taxes	3,723	4,160
Other long-term liabilities	20,950	20,047

Total liabilities	$159,783	$146,563
Commitments and contingencies (see Note 13)		
Shareholders' equity:		
Preferred stock, $0.01 par value; 1,055 shares authorized; none issued	$-	$-
Common stock, $0.01 par value, 150,000 shares authorized, 49,039 and 48,989 shares issued; 26,580 and 26,529 shares outstanding at March 31, 2019 and June 30, 2018, respectively	490	490
Additional paid-in capital	378,756	376,950
Treasury stock, at cost: 22,460 and 22,460 shares at March 31, 2019 and June 30, 2018, respectively	(656,551)	(656,551)
Retained earnings	656,096	669,013
Accumulated other comprehensive loss	(5,816)	(6,171)
Total Ethan Allen Interiors Inc. shareholders' equity	372,975	383,731
Noncontrolling interests	74	139
Total shareholders' equity	373,049	383,870
Total liabilities and shareholders' equity	$532,832	$530,433

See accompanying notes to consolidated financial statements.

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,	
	2019	2018	2019	2018
Net sales	$177,829	$181,419	$562,766	$561,202
Cost of sales	79,435	84,711	254,062	256,380
Gross profit	98,394	96,708	308,704	304,822
Selling, general and administrative expenses	87,725	92,835	270,108	271,862
Operating income	10,669	3,873	38,596	32,960
Interest (expense), net of interest income	(62)	(70)	63	(49)
Income before income taxes	10,607	3,803	38,659	32,911
Provision for income taxes	2,629	1,187	9,651	8,018
Net income	$7,978	$2,616	$29,008	$24,893
Per share data				
Basic earnings per common share:				
Net income per basic share	$0.30	$0.10	$1.09	$0.91
Basic weighted average common shares	26,705	27,476	26,690	27,469
Diluted earnings per common share:				
Net income per diluted share	$0.30	$0.09	$1.08	$0.90
Diluted weighted average common shares	26,751	27,692	26,749	27,725
Comprehensive income				
Net income	$7,978	$2,616	$29,008	$24,893
Other comprehensive income				
Foreign currency translation adjustments	303	1,451	355	(71)
Other	(20)	(7)	(65)	(39)
Other comprehensive income (loss), net of tax	283	1,444	290	(110)
Comprehensive income	$8,261	$4,060	$29,298	$24,783

See accompanying notes to consolidated financial statements.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Nine months ended March 31,					
Cash Flows from Operating Activities	2019			2018		
Net income	$	29,008		$	24,893	
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization		14,849			14,955	
Shared-based compensation expense		986			967	
Deferred income taxes		(390	)		(342	)
Loss on disposal of property, plant and equipment		134			191	
Other		(16	)		(11	)
Change in operating assets and liabilities, net of effects of acquired businesses:						
Accounts receivable, net		(3,474	)		(3,640	)
Inventories		(1,613	)		(14,265	)
Prepaid expenses and other current assets		(1,290	)		278	
Customer deposits		1,145			4,666	
Accounts payable		726			7,719	
Accrued compensation and benefits		3,832			1,737	
Accrued expenses and other current		(480	)		(1,218	)

liabilities		
Other assets and liabilities	890	(840)
Net cash provided by operating activities	44,307	35,090
Cash Flows from Investing Activities		
Proceeds from the disposal of property, plant and equipment	1	327
Capital expenditures	(6,990)	(9,121)
Other investing activities	124	154
Net cash used in investing activities	(6,865)	(8,640)
Cash Flows from Financing Activities		
Borrowings on revolving credit facility	16,000	-
Payments on borrowings and capital lease obligations	(8,443)	(14,306)
Repurchases of common stock	-	(1,100)
Payment of cash dividends	(41,916)	(24,283)
Other financing activities	253	141
Net cash used in financing activities	(34,106)	(39,548)
Effect of exchange rate changes on cash and cash equivalents	43	130
Net increase (decrease) in cash, cash equivalents, and restricted cash	3,379	(12,968)
Cash, cash equivalents, and restricted cash at beginning of period	22,363	65,031
Cash, cash equivalents, and restricted cash at end of period	$ 25,742	$ 52,063

See accompanying notes to consolidated financial statements.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity (Unaudited)

(In thousands)

Nine months ended March 31, 2019

	Common Stock		Additional Paid-in	Treasury Stock		Accumulated Other Comprehensive	Retained	Non-Controlling	Total
	Shares	Par Value	Capital	Shares	Amount	Loss	Earnings	Interests	Equity
Balance at June 30, 2018	48,989	$ 490	$ 376,950	22,460	$ (656,551)	$ (6,171)	$ 669,013	$ 139	$ 383,870
Net income	-	-	-	-	-	-	8,840	-	8,840
Common stock issued on share-based awards	40	-	637	-	-	-	-	-	637
Share-based compensation expense	-	-	491	-	-	-	-	-	491
Cash dividends declared	-	-	-	-	-	-	(5,072)	-	(5,072)
Other comprehensive income (loss)	-	-	-	-	-	1,247	-	(26)	1,221
Balance at September 30, 2018	49,029	$ 490	$ 378,078	22,460	$ (656,551)	$ (4,924)	$ 672,781	$ 113	$ 389,987
Net income	-	-	-	-	-	-	12,190	-	12,190
Common stock issued on share-based awards	9	-	164	-	-	-	-	-	164
Share-based compensation expense	-	-	316	-	-	-	-	-	316
Cash dividends declared	-	-	-	-	-	-	(31,778)	-	(31,778)
Other comprehensive	-	-	-	-	-	(1,195)	-	(19)	(1,214)

income (loss)									
Balance at December 31, 2018	49,038	$490	$378,558	22,460	$(656,551)	$ (6,119)	$653,193	$ 94	$369,665
Net income	-	-	-	-	-	-	7,978	-	7,978
Common stock issued on share-based awards	2	-	19	-	-	-	-	-	19
Share-based compensation expense	-	-	179	-	-	-	-	-	179
Cash dividends declared	-	-	-	-	-	-	(5,075)	-	(5,075)
Other comprehensive income (loss)	-	-	-	-	-	303	-	(20)	283
Balance at March 31, 2019	49,039	$490	$378,756	22,460	$(656,551)	$ (5,816)	$656,096	$ 74	$373,049

Nine months ended March 31, 2018

	Common Stock		Additional	Treasury Stock		Accumulated Other		Non-	
			Paid-in			Comprehensive	Retained	Controlling	Total
	Shares	Par Value	Capital	Shares	Amount	Loss	Earnings	Interests	Equity
Balance at June 30, 2017	48,980	$490	$377,550	21,533	$(635,179)	$ (4,131)	$661,976	$ 190	$400,896
Net income	-	-	-	-	-	-	7,415	-	7,415
Common stock issued on share-based awards	-	-	4	-	-	-	-	-	4
Share-based compensation expense	-	-	444	-	-	-	-	-	444
Purchase/retirement of company stock	-	-	(1,747)	(24)	647	-	-	-	(1,100)
Cash dividends declared	-	-	-	-	-	-	(5,243)	-	(5,243)
Other comprehensive income (loss)	-	-	-	-	-	(130)	-	(14)	(144)
Balance at September 30, 2017	48,980	$490	$376,251	21,509	$(634,532)	$ (4,261)	$664,148	$ 176	$402,272
Net income	-	-	-	-	-	-	14,862	-	14,862
Common stock issued on share-based awards	5	-	133	-	-	-	-	-	133

Share-based compensation expense	-	-	638	-	-	-	-	-	638
Cash dividends declared	-	-	-	-	-	-	(13,801)	-	(13,801)
Other comprehensive income (loss)	-	-	-	-	-	(1,392)	-	(18)	(1,410)
Balance at December 31, 2017	48,985	$490	$377,022	21,509	$(634,532)	$(5,653)	$665,209	$158	$402,694
Net income	-	-	-	-	-	-	2,616	-	2,616
Common stock issued on share-based awards	-	-	4	-	-	-	-	-	4
Share-based compensation expense	-	-	(115)	-	-	-	-	-	(115)
Cash dividends declared	-	-	-	-	-	-	(5,244)	-	(5,244)
Other comprehensive income (loss)	-	-	-	-	-	1,451	-	(7)	1,444
Balance at March 31, 2018	48,985	$490	$376,911	21,509	$(634,532)	$(4,202)	$662,581	$151	$401,399

See accompanying notes to consolidated financial statements.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(1) Basis of Presentation

Founded in 1932, Ethan Allen Interiors Inc. is a Delaware corporation incorporated on May 25, 1989. The consolidated financial statements include the accounts of Ethan Allen Interiors Inc., 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.

We prepare our consolidated financial statements in accordance with generally accepted accounting principles in the United States ("GAAP"), 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 net sales 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, inventory obsolescence, useful lives for property, plant and equipment, goodwill and indefinite-lived intangible asset impairment analyses, business insurance retention reserves, tax valuation allowances, the evaluation of uncertain tax positions and other loss reserves.

Certain reclassifications have been made to the amounts in prior periods in order to conform to the current period's presentation.

(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, 2019 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 fiscal 2018 Annual Report on Form 10-K (the "2018 Annual Report on Form 10-K").

(3) Recent Accounting Pronouncements

As of March 31, 2019, we implemented all applicable new accounting standards and updates issued by the Financial Accounting Standards Board ("FASB") that were in effect. There were no new standards or updates adopted during the first nine months of fiscal 2019 that had a material impact on our consolidated financial statements.

New Accounting Standards or Updates Recently Adopted

Revenue Recognition - In May 2014, the FASB issued accounting standards update ("ASU") 2014-09, *Revenue from Contracts with Customers* (Accounting Standards Codification Topic 606 ("ASC 606")), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The new standard supersedes virtually all existing authoritative accounting guidance on revenue recognition and requires additional disclosures and greater use of estimates and judgments. We adopted the new standard in the first quarter of fiscal 2019. We reviewed substantially all of our contracts and revenue streams and determined that while the application of the new standard did not have a material change in the amount of or timing for recognizing revenue, it did impact our financial statement disclosures related to net sales and related accounts. See Note 4 for further details on these new disclosures.

Restricted Cash - In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash,* which is intended to reduce diversity in the presentation of restricted cash and restricted cash equivalents in the cash flow statement. The statement requires that restricted cash and restricted cash equivalents be included as components of total cash and cash equivalents as presented on the statement of cash flows. The Company had not previously included restricted cash as a component of cash and cash equivalents as presented on its consolidated statement of cash flows. We adopted the new standard in the first quarter of fiscal 2019, under the retrospective adoption method, and prior year restricted cash has been reclassified to conform to current year presentation. See Note 5 for further details.

Share-Based Payments - In May 2017, the FASB issued ASU 2017-09, *Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting,* which amended the scope of modification accounting for share-based payment arrangements. The guidance focused on changes to the terms or conditions of share-based payment awards that would require the application of modification accounting and specifies that an entity would not apply modification accounting if the fair value, vesting conditions and classification of the awards are the same immediately before and after the modification. We adopted ASU 2017-09 in the first quarter of fiscal 2019. The adoption of this standard had no impact on our consolidated financial statements.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Recent Accounting Standards or Updates Not Yet Effective

Leases - In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, an update related to accounting for leases. The standard introduces a lessee model that will require lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with terms of more than twelve months. Lessors will remain largely unchanged from current GAAP. In addition, ASU 2016-02 will require disclosures to help investors and other financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. The Company is required to adopt ASU 2016-02 in the first quarter of fiscal 2020 and expects to apply the modified retrospective approach, which allows for a cumulative-effect adjustment at the beginning of the period of adoption and does not require application of the guidance to comparative periods. We are currently evaluating the impact of this accounting standards update, which involves gathering lease data, reviewing our lease portfolio, implementing a third-party lease accounting software and completing an impact assessment with respect to the adoption of the provisions of the new standard. We currently expect the adoption to have a material impact to our consolidated balance sheet in order to recognize the right of use assets and related liabilities, including enhanced disclosures. However, we do not expect the adoption to have a material impact on our consolidated statements of comprehensive income or cash flows.

Goodwill Impairment Test - In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,* which removes the requirement for companies to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. This accounting standards update will be effective for us beginning in the first quarter of fiscal 2021 and we do not expect the adoption to have a material impact on our consolidated financial statements.

Implementation Costs in a Cloud Computing Arrangement - In August 2018, the FASB issued ASU 2018-15, *Cloud Computing Arrangements for Service Contracts*, an update related to a client's accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. This guidance aligns the requirements for capitalizing implementation costs in a cloud computing service contract with the guidance for capitalizing implementation costs to develop or obtain internal-use software. Capitalized implementation costs will be expensed over the term of the arrangement. This accounting standards update will be effective for us beginning in the first quarter of fiscal 2021, with early adoption permitted. We are currently evaluating the impact of this accounting standards update, but do not expect the adoption to have a material impact on our consolidated financial statements.

No other new accounting pronouncements issued or effective as of March 31, 2019 have had or are expected to have an impact on our consolidated financial statements.

(4) Revenue Recognition

We implemented ASC 606 in the first quarter of fiscal 2019 using the cumulative effect approach, which required us to apply the new guidance retrospectively to revenue transactions completed on or after July 1, 2018. Adopting this new standard did not have a material impact on our consolidated financial statements, but did result in enhanced disclosures.

Our reported revenue (net sales) consist substantially of product sales. We report product sales net of discounts and recognize them at the point in time when control transfers to the customer. For sales to our customers in our wholesale segment, control typically transfers when the product is shipped. For sales in our retail segment, control generally transfers upon delivery to the customer.

Estimated refunds for returns and allowances are recorded using our historical return patterns. Under the new standard, we record estimated refunds for sales returns on a gross basis rather than on a net basis and have recorded an asset for product we expect to receive back from customers in *Prepaid expenses and other current assets* and a corresponding refund liability in *Accrued expenses and other current liabilities* on our consolidated balance sheets. At March 31, 2019, these amounts were immaterial.

In many cases we receive deposits from customers before we have transferred control of our product to our customers, resulting in contract liabilities. These contract liabilities are reported as a current liability in *Customer Deposits* on our consolidated balance sheets. At June 30, 2018 we had customer deposits of $61.2 million, of which we recognized net sales of $1.4 million and $59.3 million respectively, during the three and nine months ended March 31, 2019. Customer deposits totaled $62.4 million at March 31, 2019.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Upon adoption of ASC 606, we have elected the following accounting policies and practical expedients:

- We recognize shipping and handling expense as fulfillment activities (rather than as a promised good or service) when the activities are performed even if those activities are performed after the control of the good has been transferred. Accordingly, we record the expenses for shipping and handling activities at the same time we recognize net sales.

- We exclude from the measurement of the transaction price all taxes imposed on and concurrent with a specific revenue-producing transaction and collected by the entity from a customer, including sales, use, excise, value-added, and franchise taxes (collectively referred to as sales taxes).

- We do not adjust net sales for the effects of financing components if the contract has a duration of one year or less, as we believe that we will receive payment from the customer within one year of when we transfer control of the related goods.

The following table disaggregates net sales by product category by segment for the three months ended March 31, 2019:

(Unaudited, amounts in thousands)	Wholesale	Retail	Total
Upholstery furniture	$ 53,071	$ 62,351	$ 115,422
Case goods furniture	37,575	40,958	78,533
Accents	19,516	30,028	49,544
Other	(1,795)	5,610	3,815
Total before intercompany eliminations	$ 108,367	$ 138,947	247,314
Eliminations			(69,485)
Consolidated Net Sales			$ 177,829

The following table disaggregates net sales by product category by segment for the nine months ended March 31, 2019:

(Unaudited, amounts in thousands)	Wholesale	Retail	Total
Upholstery furniture	$ 162,817	$ 195,667	$ 358,484

Case goods furniture	116,326	131,728	248,054
Accents	58,774	97,644	156,418
Other	(3,820)	17,630	13,810
Total before intercompany eliminations	$334,097	$442,669	776,766
Eliminations			(214,000)
Consolidated Net Sales			$562,766

- Upholstery furniture includes fabric-covered items such as sleepers, recliners and other motion furniture, chairs, ottomans, custom pillows, sofas, loveseats, cut fabrics and leather.

- Case goods furniture includes items such as beds, dressers, armoires, tables, chairs, buffets, entertainment units, home office furniture, and wooden accents.

- Accents includes items such as window treatments and drapery hardware, wall décor, florals, lighting, clocks, mattresses, bedspreads, throws, pillows, decorative accents, area rugs, wall coverings and home and garden furnishings.

- Other includes net sales for product delivery, the Ethan Allen Hotel room rentals and banquets, third-party furniture protection plans, non-inventoried parts, and consulting and other fees, net of discounts, allowances and other sales incentives.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

(5) Restricted Cash

Prior to June 30, 2018 we held restricted cash and investments in lieu of providing letters of credit for the benefit of the provider of our worker's compensation and other insurance liabilities. By June 30, 2018, this obligation had been reduced to $5.9 million, which was then exchanged for a letter of credit for the benefit of this provider, and the restricted cash and investments balance was reduced to zero.

The following table presents the components of total cash, cash equivalents, and restricted cash as set forth in our consolidated statements of cash flows (in thousands).

	March 31, 2019	June 30, 2018	March 31, 2018	June 30, 2017
Cash and cash equivalents	$25,742	$22,363	$44,977	$57,701
Restricted cash	-	-	7,086	7,330
Total cash, cash equivalents, and restricted cash	$25,742	$22,363	$52,063	$65,031

(6) Inventories

Inventories are stated at the lower of cost (first-in, first-out) and net realizable value. Cost is determined based solely on those charges incurred in the acquisition and production of the related inventory (i.e. material, labor and manufacturing overhead costs).

Inventories at March 31, 2019 and June 30, 2018 are summarized as follows (in thousands):

	March 31, 2019	June 30, 2018
Finished goods	$126,673	$124,640

Work in process	11,965	12,057
Raw materials	27,719	27,947
Valuation allowance	(1,732)	(1,632)
Inventories	$164,625	$163,012

(7) 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 pre-tax 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 changes in judgment as to the realizability of deferred tax assets. The Company identifies items which are non-recurring in nature and treats these as discrete events. The tax effect of such items is recorded in the quarter in which the related events occur. Due to the volatility of these factors, the Company's consolidated effective income tax rate can change significantly quarter over quarter.

The Company conducts business globally and, as a result, the Company and its subsidiaries file income tax returns in the U.S. and in various state and foreign jurisdictions. In the normal course of business, the Company is subject to periodic examination in such domestic and foreign jurisdictions by tax authorities. The Company and certain subsidiaries are currently under audit in the U.S. for fiscal 2016. While the amount of uncertain tax impacts 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 and that various issues relating to uncertain tax positions will be resolved within the next twelve months as exams are completed or as statutes expire and will impact the effective tax rate.

The Company is subject to a U.S. federal statutory tax rate of 21% for the fiscal year ending June 30, 2019 and thereafter, and a blended federal tax rate of 28% for fiscal 2018, due to changes made to the U.S. Internal Revenue Code. The Company’s consolidated effective tax rate was 24.8% and 25.0% for the three and nine months ended March 31, 2019 and 31.2% and 24.4% for the three and nine months ended March 31, 2018, respectively. The current period’s effective tax rate primarily includes a provision for income tax on the taxable year’s income, including federal, state and local taxes, tax expense on the establishment and maintenance of a valuation allowance on Canadian deferred tax assets, and tax and interest expense on uncertain tax positions, partially offset by the reversal of various uncertain tax positions. The prior period’s effective tax rate primarily includes a provision for income tax on the taxable year’s net income, remeasurement of deferred tax assets and liabilities as a result of the Tax Cuts and Jobs Act of 2017 (the “Tax Act”), which was enacted in December 2017, and tax and interest expense on uncertain tax positions, partially offset by the reversal of various uncertain tax positions.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

(8) Debt

Total debt obligations at March 31, 2019 and June 30, 2018 consist of the following (in thousands):

	March 31, 2019	June 30, 2018
Borrowings under revolving credit facility	$8,000	$-
Capital leases	1,202	1,680
Total debt	9,202	1,680
Less current maturities	544	584
Total long-term debt	$8,658	$1,096

Revolving Credit Facility

On December 21, 2018, the Company and most of its domestic subsidiaries (the "Loan Parties") entered into a Second Amended and Restated Credit Agreement (the "Facility"). The Facility amends and restates the existing Amended and Restated Credit Agreement, dated as of October 21, 2014, as amended. The Facility provides a revolving credit line of up to $165 million, subject to borrowing base availability, and extends the maturity of the Facility to December 21, 2023. We incurred financing costs of $0.6 million under the Facility, which are being amortized over the remaining life of the Facility using the effective interest method.

At the Company's option, revolving loans under the Facility bear interest, based on the average availability, at an annual rate of either (a) the London Interbank Offered rate ("LIBOR") plus 1.5% to 2.0%, or (b) the higher of (i) the prime rate, (ii) the federal funds effective rate plus 0.5%, or (iii) LIBOR plus 1.0% plus in each case 0.5% to 1.0%.

The availability of credit at any given time under the Facility will be constrained by the terms and conditions of the Facility, including the amount of collateral available, a borrowing base formula based upon numerous factors including the value of eligible inventory and eligible accounts receivable, and other restrictions contained in the Facility. All obligations under the Facility are secured by assets of the Loan Parties including inventory, receivables and certain types of intellectual property.

Borrowings under the Facility

To fund a portion of the special cash dividend paid to shareholders in January 2019, we borrowed $16.0 million from the Facility having a maturity date of December 21, 2023. By March 31, 2019, we had repaid $8.0 million of the total borrowed from cash generated from operating activities. The debt bears interest on the outstanding principal amount at a rate equal to the one-month LIBOR rate of 2.5% plus a spread using a debt leverage pricing grid currently at 1.5%. Interest on the loan outstanding is payable monthly in arrears and on the maturity date.

The outstanding borrowing amount of $8.0 million is reported as *Long-term debt* within the consolidated balance sheet at March 31, 2019. For the nine months ended March 31, 2019, we recorded interest expense of $0.1 million on our outstanding debt amount. The principal balance is payable in full on the maturity date.

Debt Obligations

The following table summarizes, as of March 31, 2019, the timing of cash payments related to our outstanding long-term debt obligations for the remaining three months of fiscal 2019, and each of the five fiscal years subsequent to June 30, 2019, and thereafter (in thousands).

Periods ending June 30,	
2019 (remaining three months)	$135
2020	550
2021	437
2022	60
2023	20
2024 and thereafter	8,000
Total scheduled debt payments	$9,202

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Covenants and Other Ratios

The Facility contains various restrictive and affirmative covenants, including required financial reporting, limitations on the ability to grant liens, make loans or other investments, incur additional debt, issue additional equity, merge or consolidate with or into another person, sell assets, pay dividends or make other distributions or enter into transactions with affiliates, along with other restrictions and limitations similar to those frequently found in credit agreements of this type and size. Loans under the Facility may become immediately due and payable upon certain events of default (including failure to comply with covenants, change of control or cross-defaults) as set forth in the Facility.

The Facility does not contain any significant financial ratio covenants or coverage ratio covenants other than a fixed charge coverage ratio covenant based on the ratio of (a) EBITDA, plus cash Rentals, minus Unfinanced Capital Expenditures to (b) Fixed Charges, as such terms are defined in the Facility (the "FCCR Covenant"). The FCCR Covenant only applies in certain limited circumstances, including when the unused availability under the Facility drops below $18.5 million. The FCCR Covenant ratio is set at 1.0 and measured on a trailing twelve-month basis.

At both March 31, 2019 and June 30, 2018, there was $6.2 million of standby letters of credit outstanding under the Facility. Total availability under the Facility was $150.8 million at March 31, 2019 and $108.8 at June 30, 2018. At both March 31, 2019 and June 30, 2018, we were in compliance with all the covenants under the Facility.

(9) Share-Based Compensation

All options are issued at the closing stock price on each grant date and have a contractual term of 10 years. A summary of stock option activity during the nine months ended March 31, 2019 is presented below.

	Options	Weighted Average Exercise Price
Outstanding at June 30, 2018	561,595	$ 21.70
Granted	25,590	$ 23.45

Exercised	(50,250)	$ 15.89
Canceled (forfeited/expired)	(140,364)	$ 23.03
Outstanding at March 31, 2019	396,571	$ 22.07
Exercisable at March 31, 2019	316,699	$ 20.91

A summary of stock unit awards activity during the nine months ended March 31, 2019 is presented below.

	Stock Unit Awards	Weighted Average Grant Date Fair Value
Outstanding at June 30, 2018	330,369	$ 26.15
Granted	105,644	18.60
Vested	-	-
Canceled (forfeited/expired)	(33,227)	23.36
Outstanding at March 31, 2019	402,786	$ 24.40

There were no restricted stock awards outstanding at March 31, 2019.

At March 31, 2019, there were 1,489,996 shares of common stock available for future issuance pursuant to the Stock Incentive Plan.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

(10) Earnings Per Share

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

	Three months ended March 31,		Nine months ended March 31,	
	2019	2018	2019	2018
Weighted average shares outstanding for basic calculation	26,705	27,476	26,690	27,469
Dilutive effect of stock options and other share-based awards	46	216	59	256
Weighted average shares outstanding adjusted for dilution calculation	26,751	27,692	26,749	27,725

Dilutive potential common shares consist of stock options and unvested restricted stock awards. As of March 31, 2019 and 2018, stock options to purchase 260,571 and 197,411 common shares, respectively, were excluded from the diluted EPS calculations because their inclusion would have been anti-dilutive.

As of March 31, 2019 and 2018, the number of performance-based equity award grants excluded from the calculation of diluted EPS was 269,138 and 233,596, respectively. Performance-based awards are excluded from the calculation of diluted EPS unless the performance criteria are probable of being achieved as of the balance sheet date.

(11) Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income consists of foreign currency translation adjustments which are the result of changes in foreign currency exchange rates related to our operations in Canada, Belgium, Honduras, and Mexico, and exclude income taxes given that the earnings of non-U.S. subsidiaries are deemed to be permanently reinvested. The following table sets forth the activity in accumulated other comprehensive loss for the fiscal year-to-date period ended March 31, 2019 (in thousands).

Balance June 30, 2018	$(6,171)
Changes before reclassifications	355
Amounts reclassified from accumulated other comprehensive income	-
Current period other comprehensive income (loss)	355
Balance March 31, 2019	$(5,816)

(12) Segment Information

Our wholesale and retail operating segments represent strategic business areas of our vertically integrated enterprise that operate separately and provide their own distinctive services. This vertical structure enables us to offer our complete line of home furnishings and accents more effectively while controlling quality and cost. We evaluate performance of the respective segments based upon net sales and operating income. Inter-segment transactions result, primarily, from the wholesale sale of inventory to the retail segment, including the related profit margin.

As of March 31, 2019, the Company operated 142 design centers (our retail segment) and our independent retailers operated 161 design centers. Our wholesale segment net sales include sales to our retail segment, which are eliminated in consolidation, sales to our independent retailers and unaffiliated third parties. Our retail segment net sales accounted for 79% of our consolidated net sales in the nine months ended March 31, 2019. Our wholesale segment net sales accounted for 21%.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Segment information for the three and nine months ended March 31, 2019 and 2018 is provided below (in thousands):

	Three months ended March 31,		Nine months ended March 31,	
	2019	2018	2019	2018
Net Sales:				
Wholesale segment	$108,367	$118,921	$334,097	$348,473
Retail segment	138,947	136,903	442,669	431,469
Elimination of intercompany sales	(69,485)	(74,405)	(214,000)	(218,740)
Consolidated Total	$177,829	$181,419	$562,766	$561,202
Operating income:				
Wholesale segment	$13,045	$7,927	$36,181	$36,957
Retail segment	(1,669)	(2,896)	83	(6,304)
Elimination of intercompany profit (a)	(707)	(1,158)	2,332	2,307
Consolidated Total	$10,669	$3,873	$38,596	$32,960
Depreciation and Amortization:				
Wholesale segment	$1,914	$2,002	$5,771	$5,827

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