

ETHAN ALLEN INTERIORS INC  
Form DEF 14A  
October 17, 2007  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

## SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement  
 **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**  
 Definitive Proxy Statement  
 Definitive Additional Materials  
 Soliciting Material Pursuant to §240.14a-12

## ETHAN ALLEN INTERIORS INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.  
 Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
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| (3) | Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): |
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| (3) | Filing Party:                                 |
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**ETHAN ALLEN INTERIORS INC.**

**Ethan Allen Drive  
Danbury, Connecticut 06811**

**October 17, 2007**

Dear Stockholder:

You are cordially invited to attend the 2007 Annual Meeting of stockholders of Ethan Allen Interiors Inc. This meeting will be held at the Ethan Allen International Corporate Headquarters, Ethan Allen Drive, Danbury, Connecticut 06811 at 9:00 A.M., local time, on Tuesday, November 13, 2007.

You will find information about the meeting in the enclosed Notice and Proxy Statement.

Your vote is very important and we hope you will be able to attend the meeting. To ensure your representation at the meeting, even if you anticipate attending in person, we urge you to vote by returning the enclosed proxy card, by registering your vote using the Internet or by telephone. If you attend, you will, of course, be entitled to vote in person.

Sincerely,

M. Farooq Kathwari  
*Chairman of the Board,  
President and Principal Executive Officer*

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**ETHAN ALLEN INTERIORS INC.**  
**Ethan Allen Drive**  
**Danbury, Connecticut 06811**

**NOTICE OF 2007 ANNUAL MEETING OF STOCKHOLDERS**

To our Stockholders:

The Annual Meeting of stockholders of Ethan Allen Interiors Inc. will be held at the Ethan Allen International Corporate Headquarters on Tuesday, November 13, 2007 at 9:00 A.M., local time, for the purpose of considering and acting upon the following:

1. **The election of directors;**
2. **Ratification of the appointment of KPMG LLP as our independent registered public accounting firm for the 2008 fiscal year;**
3. **Amendment to the 1992 Stock Option Plan;**
4. **Approval of the incentive performance components of the New Employment Agreement; and**
5. **Such other business as may properly come before the meeting.**

The Board of Directors has fixed September 17, 2007 as the record date for determining stockholders entitled to notice of, and to vote at, the meeting. We are mailing this notice and the accompanying proxy statement on or about October 17, 2007. We are also enclosing a copy of our 2007 annual report. Whether you plan to attend the meeting in person or not, stockholders are requested to mark, sign, date and return the enclosed proxy card. An envelope is provided requiring no postage for mailing in the United States. You may also vote by telephone or on the Internet (for information and instructions, please see the enclosed proxy card). Your prompt response is appreciated.

By Order of the Board of Directors,  
Pamela A. Banks  
*Secretary*

October 17, 2007  
Ethan Allen Interiors Inc.  
Ethan Allen Drive  
Danbury, Connecticut 06811

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**ETHAN ALLEN INTERIORS INC.**

**Ethan Allen Drive  
Danbury, Connecticut 06811**

**Questions and Answers**

**Q:** What is a proxy?

**A:** A proxy is a document, also referred to as a proxy card, on which you authorize someone else to vote for you at the upcoming annual meeting in the way that you want to vote. You also may choose to abstain from voting. Ethan Allen Interiors Inc.'s board of directors is soliciting the proxy card enclosed.

**Q:** What are the purposes of this annual meeting?

**A:** At the Annual Meeting, stockholders will elect three directors, each for a three-year term expiring in 2010. The board's nominees are: Clinton A. Clark, Kristin Gamble and Edward H. Meyer (See page 4). Stockholders will also vote on (i) ratifying our appointment of KPMG LLP as our independent registered public accounting firm for fiscal year 2008; (ii) an amendment to the 1992 Stock Option Plan; and (iii) the incentive performance components of Mr. Kathwari's new employment agreement. Other than routine or procedural matters, we do not expect any other business will be brought up at the meeting, but if any other business is properly brought up, the persons named in the enclosed proxy will have authority to vote on it as they see fit.

**Q:** Who is entitled to vote?

**A:** Only record holders of our common shares of stock at the close of business on the record date for the meeting, September 17, 2007, are entitled to vote at the annual meeting. Each common share has one vote.

**Q:** How do I vote?

**A:** Sign and date each proxy card that you receive and return it in the enclosed envelope. Proxies will be voted as you specify on each card. If you sign and return a proxy card without specifying how to vote, your shares will be voted FOR the election of the director nominees identified in this proxy statement; FOR ratification of our appointment of KPMG LLP as our independent registered public accounting firm for fiscal year 2008; FOR the amendment to the 1992 Stock Option Plan; and FOR approval of the incentive performance components of Mr. Kathwari's new employment agreement. Your shares also will be voted on any other business that comes before the meeting.

**Q:** Can I vote by telephone or on the Internet?

**A:** Yes. If you hold your shares in your own name, you may vote by telephone or on the Internet by following the instructions set forth in the attached proxy card. If your shares are held through a broker, bank, or other nominee, they will contact you to request your voting instructions and should provide you with information on voting those shares by telephone or on the Internet.

**Q:** Can I change my vote after I have voted?

**A:** A later vote by any means will cancel any earlier vote. For example, if you vote by telephone and later vote differently on the Internet, the Internet vote will count, and the telephone vote will be canceled. If you wish to change your vote by mail, you should write our Secretary and request a new proxy card. The last vote we receive before the meeting will be the one counted. You also may change your vote by voting in person at the meeting.



**Q:** What does it mean if I get more than one proxy card?

**A:** It means that your shares are registered in more than one way. Sign and return *all* proxy cards or vote *each* group of shares by telephone or on the Internet to ensure that all your shares are voted.

**Q:** Why did our household receive only one proxy statement and annual report this year?

**A:** If there are two or more stockholders sharing the same address and you did not withhold your consent to householding, we are only sending your household a single copy of our annual report and proxy statement unless we have received contrary instructions from one or more of the stockholders at your address. We believe this householding program will provide you greater convenience and save us the cost of mailing duplicate documents to your home. We will promptly provide additional copies of our 2007 annual report or this proxy statement to the other stockholders in your household if you send a written request to: Office of the Secretary, Ethan Allen Interiors Inc., Ethan Allen Drive, Danbury, Connecticut 06811, or you may call us at 203-743-8496 to request additional copies. Copies of the annual report, proxy statement and other reports we file with the SEC are also available on our website at [www.ethanallen.com/investors](http://www.ethanallen.com/investors) or through the SEC's website at [www.sec.gov](http://www.sec.gov).

You may revoke your consent to householding at any time by contacting Broadridge Financial Solutions, Inc., either by calling toll-free 800-542-1061, or by writing to Broadridge Financial Solutions, Inc., Household Department, 51 Mercedes Way, Edgewood, New York 11717. If you revoke your consent, you will be removed from the householding program within 30 days of receipt of your revocation, and each stockholder at your address will then begin receiving individual copies of our disclosure documents. Similarly, if you share an address with another stockholder and have received multiple copies of our proxy materials, you may contact Broadridge Financial Solutions, Inc. to request delivery of a single copy of these materials in the future.

**PROXY STATEMENT**

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors (the Board of Directors ) of Ethan Allen Interiors Inc., a Delaware corporation (the Company ), of proxies for use at the 2007 Annual Meeting of stockholders (the Annual Meeting ) of the Company to be held on Tuesday, November 13, 2007 at the Ethan Allen International Corporate Headquarters, Ethan Allen Drive, Danbury, Connecticut 06811 at 9:00 A.M., local time, or any adjournment thereof. The Proxy Statement and accompanying form of proxy are first being mailed to stockholders on or about October 17, 2007.

**VOTING SECURITIES; PROXIES; REQUIRED VOTE**

**Voting Securities**

The Board of Directors has fixed the close of business on September 17, 2007 as the record date (the Record Date ) for the determination of stockholders entitled to notice of, and to vote at, the Annual Meeting. As of the Record Date, the Company had outstanding 29,767,485 shares of common stock, par value \$.01 per share (the Common Stock ). The holders of Common Stock as of the Record Date are entitled to notice of, and to vote at, the Annual Meeting. Holders of Common Stock are entitled to one vote per share.

**Proxies**

Horace G. McDonell and Frank G. Wisner, the persons named as proxies on the proxy card accompanying this Proxy Statement, were selected by the Board of Directors of the Company to serve in such capacity. Each properly executed and returned proxy will be voted in accordance with the directions indicated thereon, or if no directions are indicated, such proxy will be voted in accordance with the recommendations of the Board of Directors contained in this Proxy Statement. In voting by proxy with regard to the election of directors, stockholders may vote in favor of all nominees, withhold their vote as to all nominees or withhold their vote as to a specific nominee(s). Each stockholder giving a proxy has the power to revoke it at any time before the shares it represents are voted. Revocation of a proxy is effective upon receipt of a later vote by (i) telephone; (ii) Internet; or (iii) receipt by the Secretary of the Company of either: (a) an instrument revoking the proxy; or (b) a duly executed proxy bearing a later date. Additionally, a stockholder may change or revoke a previously executed proxy by voting in person at the Annual Meeting.

**Required Vote**

The holders of at least one-third of the outstanding shares of Common Stock represented in person or by proxy will constitute a quorum at the Annual Meeting. At the Annual Meeting, the vote of a majority in interest of the stockholders present, in person or by proxy, and entitled to vote thereon is required (i) to elect directors; (ii) to ratify the appointment of KPMG LLP as the independent registered public accounting firm of the Company; (iii) to amend the 1992 Stock Option Plan ( Option Plan ); and (iv) to approve the incentive performance components of the New Employment Agreement (as defined herein).

The election inspectors appointed for the meeting will tabulate the votes cast, in person or by proxy, at the Annual Meeting and will determine whether or not a quorum is present. The election inspectors will treat abstentions as shares that are present and entitled to vote for purposes of determining the presence of a quorum but as unvoted for purposes of determining the approval of any matter submitted to the stockholders for a vote. If a broker indicates on the proxy that it does not have discretionary authority to vote on a particular matter, as to certain shares, those shares will not be considered as present and entitled to vote with respect to that matter.



## PROPOSAL 1

### ELECTION OF DIRECTORS

The Board of Directors is presently composed of seven members. The Restated Certificate of Incorporation of the Company divides the Board of Directors into three classes, with one class of directors elected each year for a three-year term. The term of the directors in class II, which is composed of three directors, expires as of the Annual Meeting.

Clinton A. Clark, Kristin Gamble and Edward H. Meyer are nominated for election at the Annual Meeting, each to serve as a director for a three-year term. If for any reason Mr. Clark, Ms. Gamble or Mr. Meyer becomes unable or unwilling to serve at the time of the Annual Meeting, the persons named as proxies in the enclosed proxy card will have discretionary authority to vote for a substitute nominee(s). It is not anticipated that Mr. Clark, Ms. Gamble or Mr. Meyer will be unavailable for election.

The following sets forth information as to Mr. Clark, Ms. Gamble and Mr. Meyer and each director continuing in office, including his or her age, present principal occupation, other business experience, directorships in other publicly held companies, membership on committees of the Board of Directors and period of service as a director of the Company.

#### **Nominees for Election at this Annual Meeting to a Term Expiring in 2010**

**Clinton A. Clark**, 65, was elected as a director of the Company on June 30, 1989. He is the President and sole stockholder of CAC Investments, Inc. ( CAC ) a private investment company he founded in January 1986. Prior to founding CAC, Mr. Clark was Chairman, President and Chief Executive Officer of Long John Silver's Restaurants, Inc. from 1990 through September 1993 and President and Chief Executive Officer of The Children's Place, a retail children's apparel chain he founded in 1968. Mr. Clark is also an investor in and director of several private companies. He is Chairman of the Compensation Committee and a member of the Audit Committee.

**Kristin Gamble**, 62, was elected as a director of the Company on July 28, 1992. Since 1984, she has been President of Flood, Gamble Associates, Inc., an investment counseling firm. Ms. Gamble was Senior Vice President responsible for equity strategy and economic research with Manufacturers Hanover Trust Company from 1981 to 1984. Prior to that, she held various management positions with Manufacturers Hanover (1977 - 1981), Foley, Warendorf & Co., a brokerage firm (1976 - 1977), Rothschild, Inc. (1971 - 1976) and Merrill, Lynch, Pierce, Fenner & Smith (1968 - 1971). Since May 1995, she has served as a member of the Board of Trustees of Federal Realty Investment Trust. She is a member of the Compensation Committee and the Nominations/Corporate Governance Committee.

**Edward H. Meyer**, 80, was elected as a director of the Company on May 30, 1991. He is Chairman of the Board and Chief Executive Officer of Ocean Road Advisors, Inc. ( Ocean Road ) an investment management company he founded in 2006. He was the former Chairman of the Board, and Chief Executive Officer of Grey Global Group Inc. ( Grey Global ). Mr. Meyer joined Grey Global in 1956 and in 1964 was appointed Executive Vice President for Account Services. He was thereafter elected President in 1968 and Chief Executive Officer and Chairman in 1970. Mr. Meyer is a director of a number of outside business and financial organizations, including Harman International Industries, Inc. and AllConnect, Inc.

#### **Directors Whose Present Terms Will Continue Until 2009**

**Richard A. Sandberg**, 65, was elected as a director of the Company on November 17, 2003. He is Chief Financial Officer and a Director of Matritech, Inc., a publicly traded developer and manufacturer of cancer diagnostic test products and is acting Chief Financial Officer at Oxford Immunotec, Ltd., a privately held developer and manufacturer of non-cancer diagnostic tests. From January 2004 to July 2007 he also served as Chief Financial Officer of Battery Asset Management, LLC, a firm engaged in foreign currency



transactions. Prior to his current positions, Mr. Sandberg held financial and operating positions at Dianon Systems, Inc., a company he founded in 1983, including Chief Executive Officer and Chief Financial Officer, and at private healthcare companies engaged in DNA testing and pharmaceutical development. Since 2005 Mr. Sandberg has been a member of the Board of Directors of North American Scientific, Inc., a publicly traded radiation-based technology company focused on the diagnosis and treatment of cancer. He is a member of the Audit Committee.

**Frank G. Wisner**, 69, was elected as a director of the Company on July 23, 2001. He is Vice Chairman, External Affairs, of American International Group ( AIG ), the leading United States-based mixed financial services and international insurance organization. Mr. Wisner is also on the board of directors of EOG Resources, Inc. Prior to joining AIG, he was the United States Ambassador to India from July 1994 through July 1997. He retired from the United States Government with the rank of Career Ambassador, the highest grade in the Foreign Service. Mr. Wisner joined the State Department as a Foreign Service Officer in 1961 and served in a variety of overseas and Washington positions during his 36-year career. Among his other positions, Mr. Wisner served successively as United States Ambassador to Zambia, Egypt and the Philippines. Before being named United States Ambassador to India, his most recent assignment was as Under Secretary of Defense for Policy. Prior to that, he was Under Secretary of State for International Security Affairs. He is Chairman of the Nominations/Corporate Governance Committee and, as of November 14, 2006, is a member of the Compensation Committee.

#### **Directors Whose Present Terms Will Continue Until 2008**

**M. Farooq Kathwari**, 63, is the Chairman, President and Principal Executive officer of Ethan Allen Interiors Inc. He has been President of the Company since 1985 and Chairman and Principal Executive Officer since 1988. He received his B.A. degree from Kashmir University in English Literature and Political Science and an M.B.A. in International Marketing from New York University. Mr. Kathwari serves on several not-for-profit organizations, including: Chairman of the National Retail Federation, Chairman of Refugees International, and a Director of the Institute for the Study of Diplomacy at Georgetown University. He has received several recognitions, including the 2007 Outstanding American by Choice award from the United States Government, 2005 Eleanor Roosevelt Val-Kill Medal, National Human Relations Awards by the American Jewish Committee, *Worth Magazine* Recognition of one of 50 Best CEOs in USA, the National Retail Federation Gold Medal, recipient of the International First Freedom Award from the Council for America's First Freedom, and Ernst & Young's Entrepreneur of the Year Award.

**Horace G. McDonell**, 78, was elected as a director of the Company on May 30, 1991. He retired as Chairman and Chief Executive Officer of the Perkin-Elmer Corporation in November 1990. Mr. McDonell served in a number of marketing and executive positions in that company. He was elected President in 1980, Chief Executive Officer in 1984, and Chairman in 1985. He is a past Chairman of the American Electronics Association and a past director of Danbury Health Systems, Hubbell Incorporated, Uniroyal Incorporated, Silicon Valley Group Incorporated and ETEC Incorporated. He is Chairman of the Audit Committee, a member of the Nominations/Corporate Governance Committee and, until November 13, 2006, was a member of the Compensation Committee.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF THE NOMINEES FOR DIRECTOR NAMED ABOVE, WHICH IS DESIGNATED AS PROPOSAL NO. 1 ON THE ENCLOSED PROXY CARD.**

#### **CORPORATE GOVERNANCE**

The Board of Directors has determined that each of the following directors or director nominees comprising the six non-management directors including all three nominees meet the criteria for

independent directors as defined in Section 303A.02 of the listing standards of the New York Stock Exchange ( NYSE Listing Standards ): Clinton A. Clark, Kristin Gamble, Horace G. McDonell, Edward H. Meyer, Richard A. Sandberg and Frank G. Wisner.

#### **Stockholder Communication with Directors**

Stockholders or interested parties may communicate with the full board, full committee, individual committee members or individual directors by sending communications to the Office of the Secretary, Ethan Allen Interiors Inc., Ethan Allen Drive, Danbury, Connecticut 06811 for forwarding to the appropriate director(s). Please specify to whom your correspondence should be directed. The Corporate Secretary has been instructed by the Board to review and promptly forward all correspondence (except advertising material and ordinary business matters) to the full board, full committee, individual director or committee member, as indicated in the correspondence.

#### **Certain Transactions**

The Company is party to indemnification agreements with each of the members of the Board of Directors pursuant to which the Company has agreed to indemnify and hold harmless each member of the Board of Directors from liabilities incurred as a result of such director's status as a director of the Company, subject to certain limitations.

#### **Compensation Committee Interlocks and Insider Participation**

No executive officer of the Company, or any of its subsidiaries, served as a director of or on the Compensation Committee (or equivalent) of another entity except as otherwise disclosed herein.

#### **Charters, Code and Guidelines**

The Company's Code of Business Conduct and Ethics, Corporate Governance Guidelines and the charters of its Audit Committee, Compensation Committee and Nominations/Corporate Governance Committee are available on the Company's website at [www.ethanallen.com/governance](http://www.ethanallen.com/governance). Any waiver of the Company's Code of Business Conduct and Ethics for directors or executive officers may only be made by the Nominations/Corporate Governance Committee, and any waivers or amendments will be disclosed promptly by a posting on our website. Stockholders may request a copy of any of these documents by writing to: Ethan Allen Interiors Inc., Ethan Allen Drive, Danbury, CT 06811, Attn: Office of the Secretary.

#### **Meetings and Committees of the Board of Directors**

During fiscal year 2007, there were four regularly scheduled meetings of the Board of Directors, one special meeting of the Board of Directors, and the annual meeting of stockholders. Non-employee directors ordinarily meet in executive session without management present immediately after regularly scheduled board meetings. These sessions are chaired by a non-employee director, which chair is rotated annually. Horace G. McDonell currently chairs the independent director meetings. All directors are expected to attend all board meetings, independent director meetings, stockholder meetings and committee meetings, as appropriate. The Board of Directors realizes that conflicts may arise from time to time but expects that each director will make every effort to keep such conflicts to a minimum. All directors who then held office, except Edward H. Meyer and Kristin Gamble, attended the November 14, 2006 annual meeting of stockholders. In fiscal year 2007, except as otherwise set forth hereinafter, there was 93% attendance at all board meetings and committee meetings.

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The Board of Directors has established three standing committees: the Audit Committee; the Compensation Committee; and the Nominations/Corporate Governance Committee. Committee membership of each nominee and continuing director are set forth below:

*Audit Committee:*

Horace G. McDonell (Chairman)  
Clinton A. Clark  
Richard A. Sandberg

*Nominations/Corporate Governance Committee:*

Frank G. Wisner (Chairman)  
Kristin Gamble  
Horace G. McDonell

*Compensation Committee:*

**Clinton A. Clark (Chairman)**

**Kristin Gamble**

**Horace G. McDonell (July 1, 2006 – November 13, 2006)**

**Frank G. Wisner**

### **AUDIT COMMITTEE**

The Audit Committee is principally responsible for ensuring the accuracy and effectiveness of the annual audit of the financial statements as conducted by the Company's internal auditors and independent registered public accounting firm. The duties of the Committee include, but are not limited to: (i) appointing and supervising the Company's independent registered public accounting firm; (ii) assessing the organization and scope of the Company's internal audit function; (iii) reviewing the scope of audits to be conducted, as well as the results thereof; (iv) approving audit and non-audit services provided to the Company by the independent registered public accounting firm; and (v) overseeing the Company's financial reporting activities, including the Company's system of internal control and the accounting standards and principles applied.

In accordance with SEC regulations, the Audit Committee has approved an Audit Committee Charter, describing the responsibilities of the Audit Committee, a copy of which can be found on the Company's website at [www.ethanallen.com/governance](http://www.ethanallen.com/governance). Each member of the Audit Committee is independent, as defined in Sections 303.01(B)(2)(a) and (3) of the NYSE Listing Standards and Item 7(d)(3) of Schedule 14A and is an audit committee financial expert as defined under Item 401 of Regulation S-K of the Securities Exchange Act of 1934.

**Report of the Audit Committee of the Board of Directors**

The Audit Committee oversees the Company's financial reporting process, including the Company's system of internal control, on behalf of the Board of Directors. However, management has the primary responsibility for the financial statements and the reporting process, including the system of internal control. In fulfilling its oversight responsibilities, the Audit Committee reviewed, with management, the audited financial statements contained within the Annual Report on Form 10-K, including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures contained in those financial statements. In addition, in compliance with the Sarbanes-Oxley Act of 2002 ( SOX ), the Audit Committee reviewed with management and KPMG LLP, the Company's independent registered public accounting firm ( KPMG ), the effectiveness of the Company's internal control over financial reporting as of June 30, 2007.

The Audit Committee reviewed with KPMG, who is responsible for expressing an opinion on the conformity of those audited financial statements with U.S. generally accepted accounting principles, their judgment(s) as to the quality, not just the acceptability, of the Company's accounting principles. The Audit Committee also reviewed such other matters as are required to be discussed under auditing standards of the Public Company Accounting Oversight Board (United States), including Statement on Auditing Standards No. 61. In addition, the Audit Committee has received from KPMG the written disclosures required by Independence Standards Board Standard No. 1 and has discussed with KPMG the auditors' independence from management and the Company.

The Audit Committee discussed with the Company's internal auditors and KPMG the overall scope and plans for their respective audits. The Audit Committee met with the internal auditors and KPMG, with and without management present, to discuss the results of their examinations, their evaluations of the Company's system of internal control and the overall quality of the Company's financial reporting practices. The Audit Committee held 9 meetings during fiscal year 2007, which included, but were not limited to, the review of the quarterly Form 10-Q filings and annual Form 10-K filing.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended June 30, 2007 for filing with the SEC.

HORACE G. McDONELL, CHAIRMAN  
CLINTON A. CLARK  
RICHARD A. SANDBERG

## **NOMINATIONS/CORPORATE GOVERNANCE COMMITTEE**

The duties of the Nominations/Corporate Governance Committee include, but are not limited to, the duty to: (i) develop qualification criteria for board members and nominate or recommend to the Board of Directors individuals to serve on the Board of Directors; (ii) review and monitor the Company's corporate governance policies and guidelines, including the Company's trading policy for its directors and executive officers; and (iii) make an annual assessment of the Board's performance and report to the Board of Directors. The Nominations/Corporate Governance Committee follows the procedure concerning nominations or consideration of director candidates recommended by stockholders set forth in the Company's Amended and Restated By-Laws ( "By-Laws" ). The By-Laws of the Company permit stockholders, as of the Record Date, to nominate director candidates at the annual meeting, subject to certain notification requirements. (See "Stockholder Proposals and Nomination of Directors under Other Matters, beginning on page 35 herein, for information on how to submit a proposal or nominate a director.) The Nominations/Corporate Governance Committee believes that as a result of the provisions in the By-Laws, any separate policy relating to stockholder proposals or nominations by the Nominations/Corporate Governance Committee would be duplicative. Each member of the Nominations/Corporate Governance Committee is independent as defined in Section 303A.02 of the NYSE Listing Standards. The Nominations/Corporate Governance Committee held 2 meetings during fiscal year 2007.

The Nominations/Corporate Governance Committee seeks candidates who demonstrate a willingness and ability to prepare for, attend and participate in all board and committee meetings and whose experience and skill would complement the then existing mix of directors. The Nominations/Corporate Governance Committee gathers suggestions as to individuals who may be available to meet the Board of Directors future needs from a variety of sources, such as past and present directors, stockholders, colleagues and other parties with which a member of the Nominations/Corporate Governance Committee or the Board of Directors have had business dealings, and undertakes a preliminary review of the individuals suggested. At such times as the Nominations/Corporate Governance Committee determines that a relatively near term need exists and the Nominations/Corporate Governance Committee believes that an individual's qualities and skills would complement the then existing mix of directors, the Nominations/Corporate Governance Committee or its Chairman will contact the individual. The Chairman will, after such contact, discuss the individual with the Nominations/Corporate Governance Committee. Based on the Nominations/Corporate Governance Committee's evaluation of potential nominees and the Company's needs, the Nominations/Corporate Governance Committee determines whether to nominate the individual for election as a director. While the Nominations/Corporate Governance Committee has not, in the past, engaged any third party firm or consultant to identify or evaluate nominees, the Nominations/Corporate Governance Committee, in accordance with its charter, may do so in the future. There are no differences in the manner in which the Nominations/Corporate Governance Committee evaluates nominees for director recommended by a stockholder.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires our executive officers and directors, owners of over 10% of our Common Stock, and some persons who formerly were directors, executive officers, or over 10% owners, to file reports of ownership and changes in ownership with the Securities and Exchange Commission and the New York Stock Exchange and furnish us with a copy of each report filed. Based solely on our review of copies of the reports by some of those persons and written representation from others that no reports were required, the Company believes that during fiscal year 2007 all Section 16(a) filing requirements were observed.

**Security Ownership of Common Stock of Certain Owners and Management**

The following table sets forth, as of September 17, 2007, except as otherwise noted, information with respect to beneficial ownership of the Common Stock in respect of: (i) each director and Named Executive Officer (as defined herein) of the Company; (ii) all directors and Named Executive Officers of the Company as a group; and (iii) based on information available to the Company and a review of statements filed with the SEC pursuant to Section 13(d) and/or 13(g) of the Securities Act of 1934, as amended (the Exchange Act), each person or entity that beneficially owned (directly or together with affiliates) more than 5% of the Common Stock. The Company believes that each individual or entity named has sole investment and voting power with respect to shares of Common Stock indicated as beneficially owned by them, except as otherwise noted.

Name and Address of Beneficial Owner	Shares Beneficially Owned(1)	Common Stock Percentage Ownership(1)
<b>Directors and Executive Officers:</b>		
M. Farooq Kathwari(2)	3,973,019	12.83 %
Edward H. Meyer(3)	85,440	*
Horace G. McDonell(4)	59,244	*
Kristin Gamble(5)	34,000	*
Clinton A. Clark(6)	25,198	*
Richard A. Sandberg(7)	8,000	*
Frank G. Wisner(8)	15,600	*
Edward Teplitz(9)	18,500	*
Corey Whitely(10)	11,782	*
Nora Murphy(11)	6,500	*
Jeffrey Hoyt(12)	1,687	*
All executive officers and directors as a group(2)(3)(4)(5)(6)(7)(8)(9)(10)(11)(12)	4,238,970	13.62 %
<b>Other Principal Stockholders:</b>		
FMR Corp.(13)	3,213,220	10.79 %
Royce & Associates, LLC(14)	3,183,795	10.70 %
AMVESCAP PLC(15)	2,611,043	8.77 %
Lord, Abbett & Co., LLC(16)	2,596,039	8.72 %
Artisan Partners LP(17)	2,106,000	7.07 %
Barclays Global Investors Japan Limited(18)	1,702,389	5.72 %

\* Indicates beneficial ownership of less than 1% of shares of Common Stock.

(1) Information presented herein reflects beneficial share ownership and includes stock-based compensation awards and outstanding options granted under the 1992 Stock Option Plan (the Stock Options), which as of September 17, 2007, are currently exercisable or will become exercisable within sixty (60) days.

(2) Includes (a) 2,767,302 shares owned directly by Mr. Kathwari, (b) options to purchase 1,200,050 shares of Common Stock, and (c) 5,667 shares held indirectly by Mr. Kathwari in the Ethan Allen Retirement Savings Plan. The address of Mr. Kathwari is Ethan Allen Drive, Danbury, CT 06811.

(3) Includes (a) 61,440 shares owned directly by Mr. Meyer, and (b) options to purchase 24,000 shares of Common Stock. The address of Mr. Meyer is Ethan Allen Drive, Danbury, CT 06811.

(4) Includes (a) 35,244 shares owned directly by Mr. McDonell, and (b) options to purchase 24,000 shares of Common Stock. The address of Mr. McDonell is Ethan Allen Drive, Danbury, CT 06811.



- (5) Includes (a) 10,000 shares owned directly by Ms. Gamble, and (b) options to purchase 24,000 shares of Common Stock. The address of Ms. Gamble is Ethan Allen Drive, Danbury, CT 06811.
- (6) Includes (a) 13,198 shares owned directly by Mr. Clark, and (b) options to purchase 12,000 shares of Common Stock. The address of Mr. Clark is Ethan Allen Drive, Danbury, CT 06811.
- (7) Includes (a) 500 shares owned directly by Mr. Sandberg, and (b) options to purchase 7,500 shares of Common Stock. The address of Mr. Sandberg is Ethan Allen Drive, Danbury, CT 06811.
- (8) Includes (a) 100 shares owned directly by Mr. Wisner, and (b) options to purchase 15,500 shares of Common Stock. The address of Mr. Wisner is Ethan Allen Drive, Danbury, CT 06811.
- (9) Includes options to purchase 18,500 shares of Common Stock held by Mr. Teplitz. The address of Mr. Teplitz is Ethan Allen Drive, Danbury, CT 06811.
- (10) Includes (a) 607 shares of Common Stock held indirectly by Mr. Whitely in the Ethan Allen Retirement Savings Plan, and (b) options to purchase 11,175 shares of Common Stock. The address of Mr. Whitely is Ethan Allen Drive, Danbury, CT 06811.
- (11) Includes options to purchase 6,500 shares of Common Stock held by Ms. Murphy. The address of Ms. Murphy is Ethan Allen Drive, Danbury, CT 06811.
- (12) Includes options to purchase 1,687 shares of Common Stock held by Mr. Hoyt. The address of Mr. Hoyt is Ethan Allen Drive, Danbury, CT 06811.
- (13) FMR Corp. ( FMR ), a parent holding company of certain institutional investment managers registered under the Exchange Act and certain other entities, beneficially owned 3,213,220 shares of Common Stock as per their Schedule 13G filing with the SEC on January 10, 2007. The address of FMR is 82 Devonshire Street, Boston, MA 02109.
- (14) Royce & Associates, LLC ( Royce ), an institutional investment manager registered under the Exchange Act, beneficially owned 3,183,795 shares of Common Stock as per their Schedule 13G filing with the SEC on January 9, 2007. The address of Royce is 1414 Avenue of the Americas, New York, New York 10019.
- (15) AMVESCAP PLC ( AMVESCAP ), a U.K. entity and an institutional investment manager registered under the Exchange Act, beneficially owned 2,611,043 shares of Common Stock per their Schedule 13G filing with the SEC on February 13, 2006. The address of AMVESCAP is 30 Finsbury Square, London EC2A 1AG England.
- (16) Lord, Abnett & Co., LLC ( Lord ), an institutional investment manager registered under the Exchange Act, beneficially owned 2,596,039 shares of Common Stock as per their Schedule 13G filing with the SEC on February 14, 2007. The address of Lord is 90 Hudson Street, Jersey City, New Jersey 07302.
- (17) Artisan Partners LP ( Artisan ), an institutional investment manager registered under the Exchange Act, beneficially owned 2,106,000 shares of Common Stock as per their Schedule 13G filing with the SEC on January 26, 2007. The address of Artisan is 875 East Wisconsin Avenue, Suite 800, Milwaukee, WI 53202.
- (18) Barclays Global Investors Japan Limited ( Barclays-Japan ), an institutional investment manager registered under the Exchange Act, beneficially owned 1,702,389 shares of Common Stock as per their Schedule 13G filing with the SEC on January 23, 2007. The address of Barclays-Japan is 45 Fremont Street, San Francisco, CA 94105.



## COMPENSATION COMMITTEE

### Compensation Discussion and Analysis

The purpose of this Compensation Discussion and Analysis is to provide material information about the Company's compensation objectives and policies for its Named Executive Officers and to put into perspective the tabular disclosures and related narratives.

### Compensation Philosophy and Objectives

The Company's executive compensation philosophy is focused on attracting, retaining and motivating a qualified management team and aligning their interests with the long-term interests of stockholders. This is accomplished by creating compensation packages which are competitive within the industries in which the Company operates, fair and equitable among the executives and which provide incentives for the long-term success and performance of the Company. Compensation is allocated among base salary, annual cash incentive compensation and long-term equity incentives. Incentive compensation is designed to reward achievement within areas under the control of the relevant employee, although Company-wide performance is also a significant factor. We consider the cost to the Company when we make decisions on compensation packages. As the level of responsibility increases, the portion of an executive's compensation tied to the Company's and the executive's personal performance will be proportionately greater. Finally, we endeavor to ensure that the Company's compensation program is perceived as fundamentally fair to all stakeholders.

The duties of the Compensation Committee include, but are not limited to: (i) reviewing and making determinations with regard to the employment arrangements and compensation for the Principal Executive Officer, President and Principal Financial Officer or Treasurer; and (ii) considering and either accepting, modifying or rejecting the Principal Executive Officer's recommendations as to incentive compensation for other executives. No member of the Compensation Committee was an officer or employee of the Company or any of its subsidiaries during fiscal year 2007. The Compensation Committee, in accordance with its charter, may engage any third party firm or consultant in fulfilling its responsibilities. The Compensation Committee held 3 meetings during fiscal year 2007.

### General Policies Regarding Compensation of Named Executive Officers

The Compensation Committee's goal is to establish compensation levels and administer executive compensation plans which serve to: (1) attract and retain high quality managerial and executive talent; (2) reward executives for superior performance; and (3) structure appropriate incentives for executives to produce sustained superior performance in the future. Generally, in assessing the compensation arrangements for Named Executive Officers, other than the Principal Executive Officer, the Compensation Committee solicits recommendations from the Principal Executive Officer relating to discretionary annual cash incentive compensation and long-term equity incentives such as stock option grants, which it considers, and either accepts, modifies or rejects.

### Overview of Process and Compensation Components

The compensation for our executives, including our President and Principal Executive Officer, is comprised of three primary elements: base salary, annual cash incentive compensation and long-term equity incentives. We also provide perquisites, a retirement savings plan and, for selected executives, employment and post-employment agreements. The Company does not maintain a stock ownership policy.

During fiscal year 2007, the Compensation Committee maintained a cash bonus program (See "Cash Bonus" under Executive Compensation beginning on page 16) with terms consistent with recommendations made by the President and Principal Executive Officer.

The President and Principal Executive Officer makes recommendations to the Compensation Committee with respect to selected other executives. The other executives are not present at the time of deliberations, although, the President and Principal Executive Officer is present. The Compensation Committee may accept or adjust such recommendations. The Compensation Committee reviews, annually, the performance and compensation of the President and Principal Executive Officer. When developing an employment agreement for the President and Principal Executive Officer we engage the services of an independent third-party consultant which gathers relevant market information. We analyze such market information in developing the compensation package. We also receive input from legal counsel, as appropriate.

To assist in developing the terms of the Employment Agreement (hereafter defined), the Compensation Committee retained Sibson Consulting, and met with such consultant over a period of six months. In determining the level of compensation appropriate for Mr. Kathwari, the Compensation Committee reviewed employment contracts of chief executive officers in companies within the home furnishings and retail industries of a size and complexity comparable to the Company. In addition, the Compensation Committee and Mr. Kathwari agreed to include a substantial incentive component in the Employment Agreement. As a result, a large part of Mr. Kathwari's potential compensation is in the form of stock options, restricted stock awards, and a bonus based on the Company's Operating Income (as defined in the Employment Agreement). The Compensation Committee believes that Mr. Kathwari's compensation is appropriate in light of Mr. Kathwari's contributions to the Company, his responsibility for and implementation of the strategic plan of the Company and the brand as well as his experience within the home furnishings industry, including his knowledge and background with respect to both manufacturing and retailing. The terms of Mr. Kathwari's compensation for fiscal year 2007 were governed by the Employment Agreement, details of which can be found under Executive Compensation Employment Agreements beginning on page 20 herein.

Whether a stock option grant will be made to a Named Executive Officer, and if so in what amount, is based upon: (i) the subjective evaluation, by the President and Principal Executive Officer of the Named Executive Officer's potential contribution to the Company's future success; (ii) the level of incentive already provided by the number and term of the Named Executive Officer's existing stock option holdings; and (iii) the market price of the Common Stock. Annually we allocate to the President and Principal Executive Officer a block of options to be granted throughout the fiscal year to recruit executives and reward employees including the Named Executive Officers. In fiscal year 2007, we allocated 75,000 options to the President and Principal Executive Officer. The President and Principal Executive Officer granted 18,000 of such options in fiscal year 2007. Options are granted to directly align the interest of employees, including the Named Executive Officers, to the appreciation on the Common Stock. Options typically vest twenty-five (25%) percent per year beginning one year after the grant date, with full vesting over a four (4) year period. The term of such options is ten (10) years, after which the options expire, unless the employee separates earlier from the Company, at which point the options expire 90 days after such separation. The exercise price is established as of the date of grant.

In determining the size of individual option grants, stock unit awards and restricted stock awards, the Compensation Committee considers the aggregate number of shares available, which is, in turn, a function of: (i) the level of stockholders' dilution; (ii) the number of shares previously authorized by stockholders and remaining available; and (iii) the number of individuals to whom the Company wishes to grant stock options, stock unit awards and/or restricted stock awards. The Compensation Committee also considers the range of potential compensation levels that may be yielded by the options or awards. Furthermore, the Compensation Committee may consider the size of option grants, stock unit or restricted stock awards by those companies with which it believes the Company competes for executives, especially within the home furnishings industry. The Compensation Committee reserves the discretion to consider any factors it considers relevant, and to give all factors considered the relative weight it considers appropriate under the

circumstances then prevailing, in reaching its determination regarding the size and timing of option grants, stock unit awards and restricted stock awards. The timing of option grants is neither date nor event specific. However, the Company has historically granted options in the last quarter of each fiscal year. Grants of stock options to the Company's executives under the Option Plan provides an incentive to executives and managerial staff to achieve the Company's long-term performance objectives.

Although the Compensation Committee will continue to consider deductibility under Section 162(m) with respect to future compensation arrangements with Named Executive Officers, deductibility will not be the sole factor used in determining appropriate levels or methods of compensation. Since Company objectives may not always be consistent with the requirements for full deductibility, the Company may enter into compensation arrangements under which payments are not deductible under Section 162(m).

### **Conclusion**

The Compensation Committee believes that long-term stockholder value is enhanced by corporate and individual performance achievements. Through the plans and practices described above, a significant portion of the Company's executive compensation is based on corporate and individual performance, as well as competitive pay practices. The Compensation Committee believes equity compensation, in the form of stock options, restricted stock, and stock units is vital to the long-term success of the Company. The Compensation Committee remains committed to this policy, recognizing that the competitive market for talented executives and the cyclical nature of the Company's business may result in highly variable compensation for a particular time period.

### **Report of the Compensation Committee of the Board of Directors**

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis set forth above. Based upon the review and discussion, the Compensation Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's proxy statement.

CLINTON A. CLARK, CHAIRMAN  
KRISTIN GAMBLE  
FRANK G. WISNER

### **Executive Compensation**

Set forth below is a description of the business experience of each Named Executive Officer, other than Mr. Kathwari, whose experience is set forth above under Proposal 1, Election of Directors, of the Company:

*Jeffrey Hoyt*, 37, has served as Vice President, Finance since May 2003, becoming Treasurer in April 2005. He is responsible for the development and execution of the Company's financial policies and practices, serving as both Principal Financial Officer and Principal Accounting Officer. Mr. Hoyt joined the Company in August 2002 as Director, Corporate Accounting and Financial Reporting. Prior to that, Mr. Hoyt worked for KPMG LLP for ten years. He holds a B.S. in Accounting from Fairfield University and is a licensed CPA in the State of Connecticut. Mr. Hoyt resigned his position effective as of the filing of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.

*Edward Teplitz*, 46, has served as Vice President, Retail Division since May 2003 and Executive Vice President of our subsidiary, Ethan Allen Retail, Inc. since 2005. He is responsible for the oversight and operation of the Company's retail division. Mr. Teplitz joined the Company in 2001 as Vice President, later becoming Chief Financial Officer. Prior to joining the Company he was an Ethan Allen licensee in

Pittsburgh, Pennsylvania and Cleveland, Ohio. Prior to that, Mr. Teplitz worked in the corporate finance department of E.F. Hutton & Company and FLIC (USA), Inc. Mr. Teplitz resigned his position as of October 3, 2007.

*Corey Whitely*, 47, has served as Vice President, Operations since 2003 and Executive Vice President of our subsidiary, Ethan Allen Operations, Inc., since 2005. He is responsible for overseeing the Company's manufacturing, logistics processes and information systems. Mr. Whitely joined the Company in 1988 in the retail division and has held positions of increasing responsibilities including the areas of information technology, logistics and manufacturing. Mr. Whitely also serves on the Board of Directors of the Connecticut Retail Merchants Association, a statewide group representing retailers in Connecticut, and is a member of the National Retail Federation's CIO Council which is the industry's committee of IT leaders. Mr. Whitely was promoted on October 5, 2007 to the position of Executive Vice President, Operations.

*Nora Murphy*, 47, has served as Vice President, Style, since October 2001. Ms. Murphy is responsible for directing and coordinating the style, presentation, and design of the company's products, design centers, and branding. Ms. Murphy began working for Ethan Allen as a consultant in 1992. For twenty years she was the principal of the design firm Balogh Murphy Renderings, which specialized in residential interior design and architectural and interior renderings. Ms. Murphy has designed furniture for Polo Ralph Lauren, where she held the title of product design manager. Ms. Murphy studied interior design at the Fashion Institute of Technology, in New York City. Ms. Murphy was promoted on October 5, 2007 to the position of Executive Vice President, Style and Advertising.

**Summary Compensation Table**

The following table sets forth, as to the Principal Executive Officer, Principal Financial Officer and the three next most highly compensated officers (the Named Executive Officers), information concerning all compensation paid or accrued for services rendered in all capacities to the Company during the fiscal year ended June 30, 2007.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Option awards (\$)	All other compensation (\$)(1)	Total (\$)
M. Farooq Kathwari, Chairman of the Board, President and Principal Executive Officer	2007	\$ 1,100,000	\$ 168,000		\$ 161,749 (2)	\$ 1,429,749
Jeffrey Hoyt, Principal Financial Officer(3)	2007	\$ 175,000	\$ 55,000	\$ 15,700	\$ 1,300	\$ 247,000
Edward Teplitz, Vice President, Retail Division(3)	2007	\$ 250,000	\$ 115,000	\$ 41,163	\$ 1,300	\$ 407,463
Corey Whitely, Vice President, Operations(3)	2007	\$ 225,000	\$ 90,000	\$ 18,157	\$ 1,300	\$ 334,457
Nora Murphy, Vice President, Style(3)	2007	\$ 195,000	\$ 85,000	\$ 23,315	\$ 1,300	\$ 304,615

(1) Includes contributions by the Company of \$1,300 each pursuant to the Ethan Allen Retirement Savings Plan for fiscal year 2007.

(2) The following is a detailed table outlining Mr. Kathwari's other compensation. Amounts reflected below represents actual amounts charged to the Company's operations during the fiscal year ended

June 30, 2007. In addition, there were other incremental costs incurred by the Company for: (i) a Company car (\$78,438); (ii) a club membership (\$15,442); and (iii) a Company plane (\$291,842) all of which were used solely for business purposes. It is Mr. Kathwari's practice to reimburse the Company for any incremental costs relating to his personal use of the Company plane and club membership. See also Executive Perquisites/Other Personal Benefits on page 19.

Life insurance premiums	\$35,000
Company car	\$1,500
Retirement contract (change in value)	\$11,416
Restricted Stock book account (change in value)	\$14,253
Cash dividends on Stock Units	\$98,280
401(k) Company match	\$1,300
Total	\$161,749

(3) Mr. Hoyt resigned his position effective with the filing of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007. Mr. Teplitz resigned his position as of October 3, 2007. On October 5, 2007 Mr. Whitely was promoted to Executive Vice President, Operations and Ms. Murphy was promoted to Executive Vice President, Style and Advertising.

#### Cash Bonus

Each Named Executive Officer, along with other executives and key employees, is eligible for an annual cash bonus. Cash bonuses are intended: (i) to reward key employees based upon both the Company's performance and the individual's performance; (ii) to motivate key employees; and (iii) to provide competitive cash compensation opportunities.

For fiscal year 2007, the Company's Compensation Committee maintained a cash bonus program (the Bonus Program) for managerial employees of the Company. The amount made available for fiscal year 2007 is based upon actual bonus payments to managerial employees, other than Mr. Kathwari, for fiscal year 2006, as adjusted for actual operating performance of the Company and changes in headcount. The Bonus Program had two components: (i) an aggregate of \$2,138,000 in cash to be distributed to managerial employees, other than Mr. Kathwari, in amounts recommended by Mr. Kathwari; and (ii) as to Mr. Kathwari, an amount determined in accordance with the Employment Agreement. In light of the Company's performance for fiscal year 2007 and in accordance with the bonus formula in the Employment Agreement, the Compensation Committee approved a bonus of \$168,000 for Mr. Kathwari.

#### Equity Incentives

##### *Stock Units and Restricted Stock*

We grant stock units and restricted stock in limited circumstances to provide competitive pay packages. These grants are designed primarily to retain qualified executives since the employee cannot sell shares during the restriction period, which is of variable duration, including up until the date of separation from the Company. These grants are used to align the Named Executive Officer with long-term stockholder value.

The accounting cost of restricted stock and stock unit awards, for which the exercise price is zero, is calculated based on the closing price of a single share of Common Stock on the date of the award.

*Non-qualified stock options*

Stock options granted with exercise prices equal to 100% of the underlying Common Stock market value, based on the closing price of a single share of Common Stock on the date of grant, are currently the Company's primary long term compensation vehicle for executives and managerial staff. The Compensation Committee believes that stock options align the interests of management with those of the Company's stockholders, providing appropriate incentive to motivate management, thereby increasing stockholder return.

The Company has issued options to purchase shares of Common Stock pursuant to the Option Plan. See Note 11 to Notes to Consolidated Financial Statements in the Company's Annual Report as of June 30, 2007 filed on Form 10-K. The Company has registered the issuance of the shares of Common Stock which will be issuable upon exercise of such options.

The accounting cost of stock option grants is determined on the date of grant and recognized over the applicable vesting period. We estimate, as of the date of grant, the fair value of stock options awarded using the Black-Scholes option-pricing model. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs, including anticipated changes in the underlying stock price (i.e. expected volatility) and option exercise activity (i.e. expected life). Expected volatility is based on the historical volatility of our Common Stock and other contributing factors. The expected life of options granted, which represents the period of time that the options are expected to be outstanding, is based, primarily, on historical data. The actual value of the option that employees will realize, if any, is not known until the options are exercised, if at all.

*Grants of Plan-Based Awards*

<b>Name</b>	<b>Grant Date</b>	<b>All other option awards: Number of securities underlying options (#)</b>	<b>Exercise or base price of option awards (\$/Sh)</b>	<b>Grant date fair value of option awards (\$)</b>
M. Farooq Kathwari				
Jeffrey Hoyt	6/4/2007	1,000	\$ 36.71	\$ 9,850
Edward Teplitz	6/4/2007	2,000	\$ 36.71	\$ 19,700
Corey Whitely	6/4/2007	2,000	\$ 36.71	\$ 19,700
Nora Murphy	6/4/2007	2,500	\$ 36.71	\$ 24,625



*Outstanding Equity Awards at Fiscal Year-End*

	Option Awards				Stock Awards Number of shares or units of stock that have not vested (#)	Market value of shares or units of stock that have not vested (\$)
	Number Exercisable	Number Unexercisable	Option Price	Expiration		
M. Farooq Kathwari	750,000		\$ 27.52	9/17/2007	10,500	\$ 359,625
	50		\$ 25.00	3/31/2010		
	600,000		\$ 31.02	8/1/2012		
	400,000		\$ 35.53	8/1/2013		
	200,000		\$ 37.15	8/2/2014		
Jeffrey Hoyt	250		\$ 29.55	4/14/2013		
	500	500	\$ 41.35	3/25/2014		
	750	750	\$ 31.15	5/27/2015		
	187	563	\$ 36.56	6/27/2016		
		1,000	\$ 36.71	6/4/2017		
Edward Teplitz	7,000		\$ 29.23	9/16/2011		
	7,000		\$ 29.55	4/14/2013		
	3,000	1,000	\$ 41.35	3/25/2014		
	1,250	1,250	\$ 31.15	5/27/2015		
	250	750	\$ 36.56	6/27/2016		
		2,000	\$ 36.71	6/4/2017		
Corey Whitely	1,500		\$ 32.67	6/15/2008		
	1,500		\$ 30.75	10/1/2009		
	50		\$ 25.00	3/31/2010		
	4,000		\$ 38.79	4/18/2012		
	1,500		\$ 29.55	4/14/2013		
	1,125	375	\$ 41.35	3/25/2014		
	1,250	1,250	\$ 31.15	5/27/2015		
	250	750	\$ 36.56	6/27/2016		
		2,000	\$ 36.71	6/4/2017		
Nora Murphy	2,625		\$ 38.79	4/18/2012		
	500		\$ 29.55	4/14/2013		
	1,875	625	\$ 41.35	3/25/2014		
	1,250	1,250	\$ 31.15	5/27/2015		
	250	750	\$ 36.56	6/27/2016		
		2,500	\$ 36.71	6/4/2017		

**Option Exercises and Stock Vested**

	<b>Option Awards Number of shares acquired on exercise (#)</b>	<b>Value realized on exercise (\$)</b>	<b>Stock Awards Number of shares acquired on vesting (#)</b>	<b>Value realized on vesting (\$)</b>
M. Farooq Kathwari	750,000 (1)	\$ 13,159,975	4,200	\$ 156,786
Jeffrey Hoyt				
Edward Teplitz				
Corey Whitely				
Nora Murphy	1,500	\$ 14,055		

(1) Upon exercise, Mr. Kathwari tendered 555,531 shares in payment of the exercise cost and related tax withholding liability resulting in 194,469 net new shares being issued.

**Equity Compensation Plan Information**

The following table sets forth certain information regarding our equity compensation plans as of June 30, 2007.

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)(3)</b>
Equity compensation plans approved by security holders(1)	2,556,750	\$ 29.72	1,441,479
Equity compensation plans not approved by security holders(2)			
<b>Total</b>	<b>2,556,750</b>	<b>\$ 29.72</b>	<b>1,441,479</b>

(1) Amount includes stock options outstanding under our Option Plan as well as unvested shares of restricted stock and vested Stock Units which have been provided for under the provisions of the Option Plan. See Note 11 to our Consolidated Financial Statements included under Item 8 of the Annual Report.

(2) As of June 30, 2007, we do not maintain any equity compensation plans which have not been approved by our shareholders.

(3) Amount includes 997,270 shares approved by security holders in November 2006 and reserved for future issuance under the Option Plan.

**Executive Perquisites/Other Personal Benefits**

Benefits offered to Named Executive Officers are similar to those offered to all employees. In addition, the Company provides nominal perquisites and believes that its perquisites are reasonable and consistent with the overall executive compensation program. In 2007, with the exception of Mr. Kathwari, the Named Executive Officers did not receive any perquisites. Mr. Kathwari received (1) access to and use of a Company car (including driver, gas, registration, title, insurance and maintenance); (2) reimbursement of life insurance premiums up to \$35,000; (3) a retirement contract; (4) 401(k) Company match; (5) interest on a restricted stock book account established pursuant to his Employment Agreement; and (6) dividend equivalent payments on Stock Units awarded pursuant to his prior employment agreement. Mr. Kathwari's use of the airplane, and club membership are as a convenience to the Company and are for business purposes. (See footnote 2 Summary Compensation Table on page 15.)



The Named Executive Officers are eligible to participate in the same retirement benefit programs we offer to salaried employees at the corporate level. Our current program is a 401(k) plan with company-provided match. In addition, Mr. Kathwari is entitled to benefits under a retirement payment contract. Pursuant to the terms of the retirement payment contract and provided Mr. Kathwari remained employed up until the age of fifty (50), the Company is required to make monthly retirement payments computed as follows: \$15,000 multiplied by the number of years Mr. Kathwari remains employed by the Company after attaining the age of fifty (50) (not to exceed ten (10) years) which sum shall be divided by 120. Payment of such resultant sum shall commence on the date Mr. Kathwari attains the age of sixty-five and shall be paid until the earlier to occur of a) 120 monthly payments or b) the death of Mr. Kathwari. Such retirement payment is subject to cost of living adjustments. In the event Mr. Kathwari shall die before receiving all retirement payments Mr. Kathwari's widow shall be entitled to reduced retirement payments equal to one-half of the retirement payment amount until the earlier to occur of a) her death or b) the cumulative payment of 120 monthly payments to Mr. Kathwari and his widow.

#### **The Ethan Allen Retirement Savings Plan**

The Company established the Ethan Allen Profit Sharing and 401(k) Retirement Plan, now known as the Ethan Allen Retirement Savings Plan, effective July 1, 1994 (the Retirement Plan), as a result of the merger of the Company's and/or its subsidiaries' profit sharing and 401(k) plans. The Retirement Plan covers all employees who have completed at least three months of service.

The 401(k) portion of the Retirement Plan allows participants to defer up to 100% of their compensation, subject to certain statutory limitations. The Company may, at its discretion, fully match the first \$500 of a participant's before tax contribution and one-half of the next \$1,600 of a participant's before tax contribution, up to a maximum of \$1,300 each year. Except as otherwise noted in the Summary Compensation Table on page 15, the Company made matching contributions to the Retirement Plan of \$1,300 for fiscal year 2007 for each of the Named Executive Officers. Participant contributions and employer matching contributions are immediately and fully vested.

Under the Profit Sharing portion of the Retirement Plan, contributions can be made only by the Company and are at the sole discretion of the Company. Contributions are allocated among all Retirement Plan participants in the same ratio as a participant's covered remuneration bears to that of all Retirement Plan participants. The Company made no profit sharing contributions during fiscal year 2007.

The Retirement Plan is the primary vehicle for providing retirement income to Company employees. The Retirement Plan is administered by Ethan Allen Global, Inc. with J.P. Morgan as Investment Manager and Record Keeper. Investment options currently offered under the Retirement Plan include two collective trusts, nine mutual funds, three strategic allocation funds, employer common stock, and a self-directed brokerage fund. Participants direct the investment of their amounts under the Retirement Plan and may choose from some or all of the investment options designated by the Retirement Committee from time to time.

#### **Employment Agreements**

As of July 1, 2002, Mr. Kathwari and the Company entered into an employment agreement (the Employment Agreement). Pursuant to the Employment Agreement, the Company has agreed to continue to employ Mr. Kathwari as Chairman, President and Principal Executive Officer of the Company and Ethan Allen Global, Inc., by assignment from Ethan Allen Retail, Inc., for a period of five years commencing July 1, 2002, with two automatic one-year extensions commencing on each of July 1, 2007, and July 1, 2008 (each, an Anniversary Date), unless notice is given by either Mr. Kathwari or the Company not later than 12 months prior to an Anniversary Date. As of the date hereof no such notice has been given. Pursuant to the terms of the Employment Agreement, Mr. Kathwari will receive a base salary

of \$850,000 per year, subject to an annual increase upon the review and recommendation of the Compensation Committee, with automatic annual cost-of-living increases.

Pursuant to the terms of the Employment Agreement, Mr. Kathwari is entitled to an annual incentive bonus based upon the Company's operating income, as adjusted. Specifically, the Company's operating income will be as set forth in the Company's audited financial statements as of June 30th of each fiscal year adjusted by adding thereto the charges, expenses or accruals, if any, charged against such operating income for (1) non-recurring or extraordinary items, (2) incentive bonuses under the Employment Agreement, (3) the issuance to the Company's executives, managers, employees, dealers and other business associates of capital stock of the Company, or the issuance to, or exercise by, such persons of options, warrants or other rights to acquire capital stock of the Company, or stock appreciation rights of the Company or similar equity equivalents, including restricted stock awards and stock options contemplated by the Employment Agreement, and (4) any increased depreciation, amortization or other changes resulting from purchase accounting adjustments (provided, however, that no such adjustments will be made under this clause (4) with respect to acquisitions occurring prior to the effective date of the Employment Agreement) ( Operating Income ). The calculation of Operating Income will be confirmed by the Company's independent public accountants or any other independent, recognized financial or accounting expert retained by the Compensation Committee. If the Company's Operating Income for the fiscal year ended June 30, 2007, was \$117.2 million (the Threshold ) or less, he would receive no incentive bonus. If the Company's Operating Income for the fiscal year ended June 30, 2007, exceeded the Threshold, his incentive bonus would be equal to 2% of the amount by which the Company's Operating Income exceeded the Threshold after giving effect to certain other adjustments as stipulated in the Employment Agreement. The Threshold will be increased by 10% each fiscal year. In addition, in the event the Company consummates a major acquisition, the Company and Mr. Kathwari have agreed that they will negotiate in good faith for an appropriate revision to the Threshold in order to properly implement its purpose.

Pursuant to the Employment Agreement, Mr. Kathwari was granted: (i) as of August 1, 2002, ten-year stock options to purchase 600,000 shares of Common Stock, at an exercise price of \$31.02 per share (the price of a share of Common Stock on the New York Stock Exchange as of such date), which vested at a rate of 200,000 each year following the date of grant, up to and including August 1, 2005; (ii) as of August 1, 2003, ten-year stock options to purchase 400,000 shares of Common Stock, at an exercise price of \$35.53 per share (the price of a share of Common Stock on the New York Stock Exchange as of such date), which vested at a rate of 200,000 each year following the date of grant, up to and including August 1, 2005; and (iii) as of August 1, 2004, ten-year stock options to purchase 200,000 shares of Common Stock, at an exercise price of \$37.15 per share (the price of a share of Common Stock on the New York Stock Exchange as of close of business on July 30, 2004, the date the Common Stock was last reported as August 1, 2004 was a Sunday), which vested on August 1, 2005. All options were granted pursuant to the 1992 Stock Option Plan. As of the Record Date, all of the foregoing options are fully vested.

Pursuant to the Employment Agreement, Mr. Kathwari received on each of August 1, 2002, August 1, 2003 and August 1, 2004, 10,500 shares of restricted stock. The shares of restricted stock vested on the third anniversary of the grant date in accordance with a tiered vesting schedule based on the Company's total return to its stockholders as compared to the total return to holders of common stock of the companies which comprise the Standard & Poor's 500. Any shares which did not vest were forfeited. As of July 31, 2007, in accordance with the tiered vesting schedule set forth in the Employment Agreement, Mr. Kathwari was deemed vested in no shares related to the August 1, 2004 grant. As of July 31, 2006, in accordance with the tiered vesting schedule set forth in the Employment Agreement, Mr. Kathwari was deemed vested in 4,200 shares related to the August 1, 2003 grant. As of July 31, 2005, in accordance with the tiered vesting schedule set forth in the Employment Agreement, Mr. Kathwari was deemed vested in 8,400 shares related to the August 1, 2002 grant. As of each dividend record date for the Common Stock occurring on or after the date of any grant of shares of restricted stock, but prior to the date such shares

become vested or are forfeited, an account established by the Company for the benefit of Mr. Kathwari has been credited with the amount of dividends which would otherwise have been paid with respect to such shares. Amounts credited to the account shall be credited with interest at the rate of 5% per year until distribution. Mr. Kathwari shall be fully vested in all amounts credited to the account, regardless of the subsequent vesting or forfeiture of the shares. The balance credited to Mr. Kathwari's account shall be distributed to him, in cash, as soon as practicable after the termination of his employment.

Under Mr. Kathwari's prior employment agreement, the Company established a book account for Mr. Kathwari, which has been credited with 126,000 Stock Units (the "Stock Units"). Following the termination of Mr. Kathwari's employment, Mr. Kathwari will receive shares of Common Stock equal to the number of Stock Units credited to the account. During the period in which Stock Units are credited to the account, Mr. Kathwari received and will receive dividend-equivalent payments, in cash, equal to the dividends which would otherwise have been paid on the shares of Common Stock represented by the Stock Units.

For fiscal year 2007, Mr. Kathwari received \$1,100,000 in base salary, which represents a \$164,983 increase from the prior fiscal year and is consistent with the terms of the Employment Agreement. Mr. Kathwari also received an annual incentive bonus for fiscal year 2007 of \$168,000 and dividend income of \$98,280 from the Stock Units. The payment of the incentive bonus and the dividend income were in accordance with the recommendation and action of the Compensation Committee and terms of the Employment Agreement. For fiscal year 2006, Mr. Kathwari received \$935,017 in base salary, which represented a \$21,022 increase from the prior fiscal year and is consistent with the terms of the Employment Agreement. Mr. Kathwari also received an annual incentive bonus for fiscal year 2006 of \$864,000 and dividend income of \$86,940 from the Stock Units. The payment of the incentive bonus and the dividend income were in accordance with the recommendation and action of the Compensation Committee and the terms of the Employment Agreement. For fiscal year 2005, Mr. Kathwari received \$913,995 in base salary, which represented a \$40,195 increase from the prior fiscal year and was consistent with the terms of the Employment Agreement. Mr. Kathwari also received an annual incentive bonus for fiscal year 2005 of \$663,000 and dividend income of \$69,300 from the Stock Units. The payment of the incentive bonus and the dividend income were in accordance with the recommendation and action of the Compensation Committee and the terms of the Employment Agreement.

The Employment Agreement is currently in its first extension year. The Compensation Committee and Mr. Kathwari have, over a period of nine months, been discussing the terms of a new employment agreement, including incentive performance components which stockholders are being asked to approve at the Annual Meeting. (See Proposal 4 Approval of Incentive Performance Components of the New Employment Agreement below beginning on page 32.) As of October 10, 2007, the Company's Compensation Committee approved and the independent members of the Company's Board of Directors ratified, subject to approval by stockholders of the incentive components, the terms of a new employment agreement between the Company and Mr. Kathwari (the "New Employment Agreement"). The form of the New Employment Agreement has not yet been executed. Pursuant to the New Employment Agreement, the Company has agreed to continue to employ Mr. Kathwari and Mr. Kathwari has agreed to remain as Chairman, President and Principal Executive Officer of the Company and Ethan Allen Global, Inc., for a period of approximately five years commencing October 10, 2007, with two automatic one-year extensions commencing on each of July 1, 2012, and July 1, 2013 (each, an "Anniversary Date"), unless notice is given by either Mr. Kathwari or the Company not later than 9 months prior to an Anniversary Date.

To assist in developing the terms of the New Employment Agreement, the Compensation Committee retained Sibson Consulting, and met with such consultant over a period of nine months. Key considerations, in determining Mr. Kathwari's final compensation package were:

(i) identification of a peer group, which included both companies adhering to similar retail models and known competitors of the

Company; (ii) ensuring that the overall level of pay is competitive and appropriate with the market; (iii) ensuring that a substantial portion of the total compensation was tied to long-term incentives; and (iv) creation of parameters that provide for increased compensation based upon the performance of the Company. The consultant analyzed data contained in proxy filings of the peer group as well as published compensation survey data, for a broader group of retail and similarly sized companies. In addition, the Compensation Committee and Mr. Kathwari agreed to include a substantial incentive component in the New Employment Agreement. As a result, a large part of Mr. Kathwari's potential compensation is in the form of stock options, restricted stock awards, and a bonus based on the Company's Operating Income. The Compensation Committee believes that Mr. Kathwari's compensation is appropriate in light of Mr. Kathwari's contributions to the Company, his responsibility for and implementation of the strategic plan of the Company and the brand as well as his experience within the home furnishings industry, including his knowledge and background with respect to both manufacturing and retailing.

Pursuant to the terms of the New Employment Agreement, Mr. Kathwari will receive a base salary of \$1,127,500 per year, subject to an annual increase. The annual increase is based on the Company's Operating Income as divided by reported sales ( Operating Margin ).

<b>Annual Percentage Increase to Base Salary</b>	<b>Annual Operating Margin</b>
0%	Less than 10%
2%	≥ 10% but < 11%
4%	≥ 11% but < 13%
5%	≥ 13%

Mr. Kathwari will be entitled to an annual incentive bonus based upon the Company's Operating Income if the bonus arrangement is approved by stockholders. Mr. Kathwari's incentive bonus for a given fiscal year will be based upon the amount by which the Company's Operating Income for the fiscal year exceeds the applicable threshold amount specified below; except that the incentive bonus for 2008 shall be based upon the Company's Operating Income from October 1, 2007 through June 30, 2008 (each a Threshold ).

**Year Threshold**

\$75 Million

**\$ Employment, Severance and Change in Control Agreements**

The Company does not have employment agreements with its executive officers, except for its Chairman and Chief Executive Officer, David P. Storch. See "Compensation Arrangement with Chief Executive Officer" on page 39 for a description of the compensation terms applicable to Mr. Storch under his employment agreement.

The Company has severance and change in control agreements with each of the named executive officers other than Mr. Storch and Mr. Stinson. See "Potential Payments Upon Termination of Employment or a Change in Control of the Company" located elsewhere in this Proxy Statement for a description of these agreements, including a description of the severance and change in control provisions applicable to Mr. Storch under his employment agreement.

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Other Compensation Practices

**Stock Ownership Guidelines:** Under the Company's stock ownership guidelines, executive officers, including the named executive officers, and directors, are expected to own and retain significant amounts of the Company's stock. The Chief Executive Officer is expected to own Company stock having a value at least three times his base salary; the President and other executive officers are expected to own stock having a value of at least 75% their base salary within five years of becoming an officer; and directors are expected to own at least 10,000 shares of Company stock within four years of becoming a director.

**Equity Grant Practices:** The Compensation Committee meets from time to time to consider and act with respect to equity compensation awards for the Company's executive officers. The Compensation Committee typically makes its equity compensation decisions at its July meeting, but it also may grant equity compensation awards to newly hired or newly promoted executive officers at other times during the year. In these cases, the grant date is the date on which the Compensation Committee acts to approve the award, unless the Compensation Committee establishes the grant date at a specified future date. Board and Compensation Committee meetings are generally scheduled a year in advance and without regard to anticipated earnings and other major announcements by the Company. The Company does not time the granting of its equity compensation awards to affect the value of its executive compensation.

**Risk Management of Compensation Practices:** The Compensation Committee considered whether the Company's compensation policies and practices for its employees, including the named executive officers, were reasonably likely to have a material adverse effect on the Company. In concluding that this was not the case, the Compensation Committee determined that the design and operation of the Company's executive compensation program were consistent with the Company's risk management strategies. In the case of the named executive officers, annual cash incentive compensation awards payable to Messrs. Storch, Romanesko and Poulton in Fiscal 2010 were based on two different metrics: the first — net income — tied to the Company's statement performance and the second — a leverage ratio — tied to the Company's balance sheet performance, and annual cash incentive compensation payable to Messrs. Clark and Stinson were based on three metrics — pre-tax income, cash flow and return on invested capital with respect to the performance of their respective business groups. This balance is also reflected in long-term incentive awards, which in Fiscal 2010 consisted of stock options and performance-based restricted stock, and in Fiscal 2011 will be diversified among stock options, time-based restricted stock and performance-based restricted stock. These long-term equity-based incentive awards contain multi-year vesting periods, thus promoting employee retention and are linked to the value of the Company's Common Stock, thus aligning management's interest with those of the Company's stockholders.

**Deductibility of Executive Compensation:** Internal Revenue Code Section 162(m) generally prevents any public company from claiming a deduction for compensation in excess of \$1 million for certain executive officers. This deduction limitation, however, does not apply to performance-based compensation that satisfies certain requirements under Section 162(m). The Compensation Committee has determined that it is in the best interests of the Company and its stockholders to structure compensation of executive officers so that compensation will not be subject to the deduction limit to the extent that it can reasonably do so in a manner that provides adequate incentives and allows the Company to attract and retain qualified



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executives. However, the Compensation Committee has previously and may in the future structure compensation arrangements that under certain circumstances may be subject to the deduction limit.

The Company maintains the AAR CORP. 162(m) Incentive Goal Program. Under this Program, the annual cash bonuses and performance-based restricted stock awards under the Stock Benefit Plan qualified in Fiscal 2010 as performance-based compensation under Section 162(m). Income recognized upon the exercise of stock options granted under the Stock Benefit Plan also qualifies as performance-based compensation. Base salaries by their nature do not qualify as performance-based compensation.

As required under the United States tax rules, the Company must obtain stockholder approval every five years of the material terms of the performance goals for qualifying performance-based compensation, including annual incentive bonuses. The Company last received stockholder approval of the performance goals under the AAR CORP. 162(m) Incentive Goal Program at the 2006 annual meeting.

Table of Contents**Summary Compensation Table<sup>1</sup>**

The following table sets forth compensation information for the Company's Chief Executive Officer, Chief Financial Officer and the three other most highly compensated executive officers ("named executive officers") for the fiscal years ended May 31, 2010 ("Fiscal 2010"), May 31, 2009 ("Fiscal 2009") and May 2008 ("Fiscal 2008"):

Name and Principal Position	Year	Salary (\$) <sup>2</sup>	Bonus (\$)	Stock Awards (\$) <sup>3</sup>	Option Awards (\$) <sup>4</sup>	Non-Equity Incentive Plan Compensation (\$) <sup>5</sup>	Change in Pension Value and Non-Qualified Deferred Compensation Earnings (\$) <sup>6</sup>	All Other Compensation (\$) <sup>6,7</sup>	Total (\$)
DAVID P. STORCH <i>Chairman of the Board and Chief Executive Officer</i>	2010	799,208	0	2,562,750	1,480,000	895,494	41,691	698,189	6,477,332
	2009	791,295	0	727,650	0	1,154,231	43,437	640,820	3,357,433
	2008	768,248	0	0	0	989,465	46,429	695,657	2,499,799
TIMOTHY J. ROMENESKO <i>President and Chief Operating Officer</i>	2010	454,500	0	1,195,950	740,000	451,882	30,493	212,792	3,085,617
	2009	450,000	0	339,570	0	553,199	50,503	192,643	1,585,915
	2008	400,000	0	289,200	0	467,590	63,125	162,393	1,382,308
JAMES J. CLARK <sup>8</sup> <i>Vice President Commercial Strategy and Business Development</i>	2010	323,013	125,000	597,975	74,000		7,210	124,051	1,251,249
	2009	319,815	275,000	169,785	0		6,987	191,647	963,234
	2008	310,500	0	0	0	715,789	7,071	153,786	1,187,146
RICHARD J. POULTON <i>Vice President, Chief Financial Officer and Treasurer</i>	2010	360,000	0	597,975	444,000	267,767		100,852	1,770,594
	2009	330,000	0	169,785	82,843	319,086		51,221	952,935
	2008	300,000	0	192,800	0	259,108		25,269	777,177
TERRY D. STINSON <sup>9</sup> <i>Group Vice President Structures and Systems</i>	2010	341,230	0	341,700	74,000	747,840		150,119	1,654,889
	2009	309,000	0	290,325	0	558,321		74,095	1,231,741

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*General.* The Summary Compensation Table provides specific compensation information for the Company's named executive officers in accordance with SEC disclosure rules. As noted in the "Compensation Discussion and Analysis" section of this Proxy Statement, however, several components of the Company's compensation are not included in the table, including the Company's performance-based restricted stock award program and the Company's pay-for-performance executive compensation program in Fiscal 2010 warrant additional explanation:

The total cash compensation delivered to the named executive officers (other than Mr. Stinson) represented by salary, bonus and non-equity incentive plan compensation decreased in Fiscal 2010 versus Fiscal 2009. This decrease was the result of a salary freeze for the first six months of Fiscal 2010, a 2% salary increase for the last six months of Fiscal 2010 and lower annual cash incentive awards due to the Company's lower net income performance (and, in Mr. Clark's case, the below-target performance of the Company's Aviation Supply Chain business group) in Fiscal 2010 compared to Fiscal 2009. Mr. Stinson's total cash compensation increased in Fiscal 2010 primarily because of his annual cash incentive award, which reflected the above-target performance of the Company's Structures and Systems business group.

The total equity compensation delivered to the named executive officers is represented by performance-based restricted stock awards and option awards. The performance-based restricted stock award values shown for Fiscal 2010 reflect equity compensation for separate performance periods under the Company's performance-based restricted stock program: (i) the Fiscal 2010 performance

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period and (ii) the combined Fiscal 2009 and Fiscal 2010 performance period. In contrast, the performance-based restricted stock award values for Fiscal 2009 reflect equity compensation for only a single performance period - Fiscal 2009. In addition to the back-end weighted nature of the program, the performance-based restricted

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stock program included a stock price acceleration provision under which the grants of the performance-based restricted stock at target level were accelerated to April 23, 2010 as a result of the Company's Common Stock trading for 20 consecutive trading days at an average price equal to or greater than \$25.06 per share (representing a 30% increase over the Company's Common Stock price of \$19.28 at the beginning of the program period on June 1, 2008). Following grant, the performance-based restricted stock remains subject to a five-year vesting period: 20% on June 1, 2011; 40% on June 1, 2013; and 40% on June 1, 2015.

The option awards shown for Fiscal 2010 represent the first grant of stock options to the Company's named executive officers since July 2003, except for any remaining reload stock options (all outstanding options were amended in 2006 to eliminate the reload provisions) and an option for 10,000 shares granted to Mr. Poulton in July 2008. The grant reflects the Compensation Committee's decision to provide a one-time "catch-up" equity grant to the named executive officers in light of benchmarking information prepared by Hewitt showing that the Company's executives had received historically lower equity compensation compared to their counterparts at peer group companies.

2 *Salary.* Salaries were frozen for the first six months of Fiscal 2010, and salary adjustments for Fiscal 2010 became effective December 1, 2009. Mr. Stinson's Fiscal 2010 salary includes \$13,333 paid in October 2009 as retroactive salary that should have been paid in Fiscal 2009.

3 *Stock Awards.* The amounts in this column reflect the grant date fair value of the performance-based restricted stock awards computed in accordance with FASB ASC Topic 718 and represent the Company's total expense for the grants made to the named executive officers in each of Fiscal 2010, Fiscal 2009 and Fiscal 2008. See Note 3 to the Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for an explanation of the assumptions made by the Company in the valuation of these awards. The "Compensation Discussion and Analysis" section of this Proxy Statement contains vesting and other information about the performance-based restricted stock awards.

4 *Option Awards.* The amounts in this column reflect the grant date fair value of the stock option awards computed in accordance with FASB ASC Topic 718 and represent the Company's total expense for the grants made to the named executive officers in Fiscal 2010 and Fiscal 2009. See Note 3 to the Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for an explanation of the assumptions made by the Company in the valuation of these awards. The "Compensation Discussion and Analysis" section of this Proxy Statement contains vesting and other information about the stock option awards.

5 *Non-Equity Incentive Plan Compensation.* This column shows the annual cash incentives earned by each named executive officer under the Company's cash incentive plan for its executive officers, including the named executive officers. The "Compensation Discussion and Analysis" section of this Proxy Statement contains additional information about these annual cash incentives (including that these annual cash incentives qualify as performance-based compensation under Section 162(m) of the Code and are thus fully deductible by the Company).

6 *Change in Pension Value and Non-Qualified Deferred Compensation Earnings.* This column does not include any preferential or above-market earnings on deferred compensation as the Company does not pay such earnings on the deferred compensation of its named executive officers. The "Change in Pension Value and Non-Qualified Deferred Compensation Earnings" column and the "All Other Compensation" column do not include amounts transferred in Fiscal 2008 from the defined benefit portion of the SKERP to the defined contribution portion of the SKERP for Messrs. Storch and Romenesko.

7 *All Other Compensation.* The table below provides a breakdown by type and amount of the totals shown in the "All Other Compensation" column for each named executive officer in Fiscal 2010. As required by the SEC rules, the Company values perquisites based on the aggregate incremental cost

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the Company. In the case of the personal use of aircraft leased by the Company, the Company determines aggregate incremental cost based on average variable costs, including fuel, maintenance, weather-monitoring, on-board catering, and landing/ramp fees. The total variable costs are divided by the number of miles flown by the aircraft to derive an average variable cost per mile. The average variable cost per mile is then multiplied by the miles flown for personal use to derive the incremental variable cost to the Company. This method of calculating incremental cost excludes fixed costs that are incurred irrespective of personal use, such as pilot's salaries, other employees' salaries, purchase cost of the aircraft and non-trip related hangar expenses. As shown below, there was no compensation attributable to personal use of aircraft in Fiscal 2010.

Name	Company	Company	Club	Personal		Company-Paid				
	401(k)	SKERP		Use	Auto	Split-Dollar	Executive	Spouse	Other	
	Plan	Contributions	Dues	Financial	Aircraft	Life	Physical	Travel		
	Contributions			Planning	Allowance	Insurance				
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	
David P. Storch	20,343	567,098	40,127	17,340	12,300	31,373	294	5,766	3,548	
Timothy J. Romenesko	20,511	161,659	11,987	12,240		4,249	2,146			
James J. Clark	17,000	93,080		12,240		1,731				
Richard J. Poulton	14,429	55,979	27,194				3,250			
Terry D. Stinson	19,087	131,032								

8

Mr. Clark served as Group Vice President - Aviation Supply Chain until his appointment as Vice President, Commercial Strategy and Business Development effective June 1, 2010.

9

Mr. Stinson was not a named executive officer of the Company in Fiscal 2008.

**Compensation Arrangement with Chief Executive Officer**

The Company has an employment agreement with Mr. Storch that was amended and restated on May 31, 2010, for a term commencing May 31, 2010 and ending May 31, 2014, subject to extension by the parties. The amended and restated agreement replaced a prior four-year agreement between the Company and Mr. Storch. The Compensation Committee believes that the amended and restated agreement contains appropriate provisions that, on the one hand, protect the Company and, on the other hand, provide fair compensation to Mr. Storch in recognition of his service and contributions to the Company, including: his 32-year career with the Company (over 20 years in senior management positions); his service as Chief Executive Officer since 1996 and Chairman of the Board since 2005; his knowledge of the commercial aviation and government defense services markets; his understanding of the Company's culture, businesses, employees and customers; and his leadership role in the Company's transformation from a supplier of aircraft parts and aftermarket services for commercial airlines into a leading international provider of products and services to the commercial aviation and government and defense markets, with both front-end manufacturing and after-market support for domestic and international customers.

The amended and restated employment agreement retained most of the provisions in the prior agreement, including the benefits payable upon a termination of employment or a change in control. See "Potential Payments Upon Termination of Employment or a Change in Control of the Company - Employment Agreement - David P. Storch." The agreement extends the term of Mr. Storch's employment with the Company and provides for the following benefits during his employment:

a base salary of not less than \$850,000 per year (an increase from \$717,618 under the prior agreement) or such increased amount as the Compensation Committee may determine;

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an annual cash incentive opportunity of up to 165% (an increase from 150% under the prior agreement) of base salary for performance against financial goals established by the Compensation Committee;

a long-term equity incentive compensation opportunity under the Company's Stock Benefit Plan or other programs as determined by the Compensation Committee; and

specified fringe benefits, consistent with the prior agreement, including personal use for Mr. Storch and his accompanying spouse and dependent family members of Company aircraft (subject to the Company's aircraft use policy, which requires payment by Mr. Storch for each accompanying passenger), annual automobile allowance, payment of country club dues, fees and certain charges, reimbursement of dues, charges and expenses relating to membership in professional clubs/organizations and not-for-profit educational organizations, financial planning and tax preparation services, executive physical, and payment of reasonable legal fees incurred to negotiate the agreement.

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**Grants of Plan-Based Awards Table**

The following table sets forth information for each named executive officer with respect to:

estimated possible payouts under non-equity incentive plan award opportunities for Fiscal 2010;

estimated possible payouts under equity incentive plan award opportunities for Fiscal 2010;

other stock awards made in Fiscal 2010; and

stock options granted in Fiscal 2010.

Name	Grant Date <sup>1</sup>	Date of Committee Action <sup>2</sup>	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards <sup>3</sup>			Estimated Possible Payouts Under Equity Incentive Plan Awards <sup>4</sup>			All Other Stock Awards: Number of Stock or Underlying Units <sup>5</sup>	All Other Awards: Number of Securities or Options <sup>6</sup>	Exercise or Base Price of Awards (\$/sh)	Grant Date Fair Value of Option and Award <sup>7</sup>
			Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)				
David P. Storch	4/23/10 7/13/09	7/8/08	564,985	807,121	1,210,681	50,250	100,500	100,500				2,562,700
Timothy J. Romenesko	4/23/10 7/13/09	7/8/08	321,300	459,000	573,750	23,450	46,900	46,900	200,000	15.10		1,480,000
James J. Clark	4/23/10 7/13/09	7/8/08	240,000 <sup>8</sup>	480,000 <sup>8</sup>		11,725	23,450	23,450	10,000	15.10		597,970
Richard J. Poulton	4/23/10 7/13/09	7/8/08	151,200	216,000	360,000	11,725	23,450	23,450	60,000	15.10		74,000
Terry D. Stinson	4/23/10 7/13/09	7/8/08	240,000 <sup>8</sup>	465,000 <sup>8</sup>		6,700	13,400	13,400	10,000	15.10		341,700

<sup>1</sup> The grant date for the performance-based restricted stock awards was April 23, 2010, the date on which the Company's Common Stock traded at an average price greater than \$25.06 per share (or 30% higher than the stock price of \$19.28 at the beginning of the performance period) for the 20<sup>th</sup> consecutive trading day, thus triggering the acceleration of the grants.

<sup>2</sup> On July 8, 2008, the Compensation Committee established the performance periods and approved the performance goals for the performance-based restricted stock awards. On that same date, it also authorized the grant of restricted stock upon achievement of the performance goals, with a grant date of the earlier of the last day of the performance period or the date during the performance period when the Company's average stock price was 30% higher than the price at the beginning of the performance period for 20 consecutive trading days.

<sup>3</sup>

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Payouts under the Company's annual incentive cash plan covering the named executive officers were contingent based upon performance for Fiscal 2010 which has now occurred. Thus, the information in these columns reflects the range of potential payouts when the performance goals were set by the Compensation Committee on July 13, 2009. The amounts actually paid under the plan for Fiscal 2010 are set forth in the "Non-Equity Incentive Plan Compensation" column of the Summary Compensation Table. See the "Compensation Discussion and Analysis" section of this Proxy Statement for description of the incentive cash plan, including the Fiscal 2010 performance goals.



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4 The information in these columns shows the range of restricted stock grants that could have been earned by the named executive officers for the Fiscal 2010 performance period and the combined Fiscal 2009 and Fiscal 2010 performance period. The numbers in the "Target" and "Maximum" columns are identical because no more than 100% of the target number of shares may be granted, even for performance in excess of the performance goal targets. The numbers of shares of restricted stock actually granted for the Fiscal 2010 performance period are those listed in the "Target" column above, namely: Mr. Storch, 100,500 shares; Mr. Romenesko, 46,900 shares; Mr. Clark, 23,450 shares; Mr. Poulton, 23,450 shares; and Mr. Stinson, 13,400 shares.

5 No restricted stock, other than performance-based restricted stock, was granted to any named executive officer in Fiscal 2010.

6 This column shows the number of shares of Common Stock that may be issued to the named executive officers upon the exercise of stock options granted by the Compensation Committee on July 13, 2009.

7 The grant date fair value of the performance-based restricted stock awards and stock options was computed in accordance with FASB ASC Topic 718.

8 Messrs. Clark's and Stinson's annual Fiscal 2010 cash incentive opportunities were based upon the pre-tax income, cash flow and return on invested capital performance of their respective business groups. The threshold amounts shown for Messrs. Clark and Stinson represent the compensation payable to them for achievement of 80% of the pre-tax income performance goal target. See "Compensation Discussion and Analysis - Principal Elements of the Executive Compensation Program - Annual Cash Incentive Opportunities" for additional information about the annual cash incentive opportunities in Fiscal 2010 for Messrs. Clark and Stinson.

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**Outstanding Equity Awards at Fiscal Year-End Table**

This table sets forth information for each named executive officer with respect to:

each stock option that remained outstanding as of May 31, 2010; and

each award of restricted stock that was not vested and remained outstanding as of May 31, 2010.

Name	Option Awards <sup>1</sup>					Restricted Stock Awards			
	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (# <sup>2</sup> )	Market Value of Units of Stock That Have Not Vested (\$ <sup>3</sup> )	Equity Incentive Plan Awards: Number of Unearned Shares, or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, or Other Rights That Have Not Vested (\$)
David P. Storch	29,800	0	0	22.41	10/11/10	306,001	6,028,220	0	0
	29,799	0		22.41	10/11/10				
	116,668	0		22.41	7/10/11				
	29,730	0		16.18	7/9/12				
	95,138	0		16.18	7/9/12				
	27,607	0		17.97	7/21/13				
	0	200,000	15.10	7/13/19					
Timothy J. Romenesko	8,425	0	0	25.52	7/11/10	118,000	2,324,600	0	0
	9,341	0		25.52	7/10/11				
	2,109	0		17.50	7/21/13				
	0	100,000		15.10	7/13/19				
James J. Clark	9,615	0	0	27.95	7/11/10	71,000	1,398,700	0	0
	3,000	0		14.90	7/10/11				
	6,397	0		27.95	7/10/11				
	2,801	0		15.33	7/9/12				
	2,657	0		16.16	7/9/12				
	10,631	0		16.16	7/9/12				
	0	0	25.34	7/21/13					
	0	10,000	15.10	7/13/19					
Richard J. Poulton	2,000	8,000	0	19.28	6/1/18	55,000	1,083,500	0	0
	0	60,000		15.10	7/13/19				
Terry D. Stinson	0	10,000	0	15.10	7/13/19	34,820	685,954	0	0

<sup>1</sup>

Stock options vest in five equal installments, except for stock options granted on 7/13/09 (expiring 7/13/19) that vest in equal installments over three years. Vesting continues upon the participant's termination of employment due to Retirement, Disability (each as defined in the Stock Benefit Plan) or death.

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Retirement: Stock options to continue to vest in accordance with the vesting schedule and can be exercised until the expiration date, except that if death occurs before the award expires, then unvested stock options are forfeited. If death occurs within three months of Retirement, vested options can be exercised as described below in the "death" provision, and if death occurs after three months of Retirement, vested options can be exercised until the option expiration date.

Disability: Stock options continue to vest and are exercisable until the earlier of (i) one year after termination of employment and (ii) the option expiration date, except that if death occurs before the award expires, then unvested options are forfeited and vested options are exercisable for the period described herein.

Death: If death occurs during, or within three months after termination of, employment for reasons other than Cause, then unvested options are forfeited and vested options are exercisable until the earlier of (i) one year after death or (ii) the option expiration date.

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Certain options listed were "reload" options which have an exercise price equal to the NYSE closing price on the date the original option was exercised. The Company no longer grants reload options and all outstanding options have been amended to eliminate reload provisions.

2

These restricted stock awards were granted in connection with attainment of previously established performance goals under the Stock Benefit Plan. The vesting schedules applicable to the restricted stock are as follows:

Restricted Stock Award Grant Date	Vesting Date	Vesting Percentage
5/31/05	7/15/06	20%
and	7/15/08	40%
6/3/05	7/15/10	40%
5/11/07	6/1/09	20%
	6/1/11	40%
	6/1/13	40%
5/31/08*	6/1/09	20%
	6/1/11	40%
	6/1/13	40%
5/31/09*	6/1/11	20%
	6/1/13	40%
	6/1/15	40%
4/23/10	6/1/11	20%
	6/1/13	40%
	6/1/15	40%

\*

The 8,968 shares of restricted stock granted to Mr. Stinson for Fiscal 2008 on May 31, 2008 and the 13,150 shares of restricted stock granted to him for Fiscal 2009 on May 31, 2009 vest in equal installments over three years.

Vesting in restricted stock awards continues or is accelerated upon the participant's termination of employment due to Retirement, Disability (each as defined in the Stock Benefit Plan) or death as follows:

Retirement: The awards continue to vest in accordance with the vesting schedule.

Disability or death: On or before the third anniversary of grant, the difference between one-half of the total award shares and the number of award shares already vested will vest as of such termination; after the third anniversary of grant, all award shares vest as of such termination.

3

This column shows the market value of the unvested restricted stock held by the named executive officers, based on a price of \$19.70 per share (the closing market price of the Common Stock on May 28, 2010, the last business day of Fiscal 2010).

Table of Contents**Option Exercises and Stock Vested Table**

This table sets forth information for each named executive officer concerning:

the exercise of options during Fiscal 2010;

the dollar amount realized on exercise of the options;

the number of shares of restricted stock that vested during Fiscal 2010; and

the value of those vested shares.

	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$) <sup>1</sup>
David P. Storch	0	0	26,000	405,860
Timothy J. Romenesko	60,243	614,010	9,000	140,490
James J. Clark	30,000	540,654	6,000	93,660
Richard J. Poulton	0	0	5,000	78,050
Terry D. Stinson	0	0	7,298	113,922

<sup>1</sup>

These amounts represent the closing market price of the Common Stock on the date of vesting, multiplied by the number of shares that vested.

**Retirement Program Benefits**

The Company provides defined benefit pension benefits under the Supplemental Key Employee Retirement Plan ("SKERP") and the Retirement Plan. This table shows the years of service currently credited to each named executive officer under the applicable plan and the present value of the accumulated benefit payable under the applicable plan to each named executive officer at the earliest age an unreduced benefit is payable.

Table of Contents**Pension Benefits Table**

Name	Plan Name	Number of Years Credited Service (#) <sup>1</sup>	Present Value of Accumulated Benefit (\$) <sup>2</sup>	Payments During Fiscal 2010 (\$)
David P. Storch	Retirement Plan	26.4	630,545	
	SKERP	N/A	81,479	
Timothy J. Romenesko	Retirement Plan	24.4	557,293	
	SKERP	N/A	98,100	
James J. Clark <sup>3</sup>	Retirement Plan	22.6	166,187	
	SKERP	N/A	N/A	N/A
Richard J. Poulton <sup>3</sup>	Retirement Plan	N/A	N/A	N/A
	SKERP	N/A	N/A	N/A
Terry D. Stinson <sup>3</sup>	Retirement Plan	N/A	N/A	N/A
	SKERP	N/A	N/A	N/A

<sup>1</sup> Number of Years of Credited Service as of May 31, 2005, the date the Retirement Plan was frozen.

<sup>2</sup> Amounts shown in this column are calculated as of May 31, 2010, which is the measurement date for reporting purposes in the Company's Annual Report on Form 10-K for Fiscal 2010. See Note 6 to the Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for an explanation of the assumptions made by the Company in determining the amounts reported in this column.

<sup>3</sup> Messrs. Clark, Poulton and Stinson are not participants in the defined benefit portion of the SKERP. Messrs. Poulton and Stinson do not participate in the Retirement Plan.

**SKERP Defined Benefit Portion**

The Company provides supplemental retirement benefits to certain executives and key employees under the SKERP. The SKERP, which is a non-qualified plan, contains a defined benefit portion and a defined contribution portion (discussed below). Only Mr. Storch and Mr. Romenesko participate in the defined benefit portion of the SKERP, the material terms and conditions of which include the following:

**Benefit Accruals:** Under the defined benefit portion of the SKERP, benefits were accrued until October 1, 2001 pursuant to a formula that provides a monthly single life annuity at retirement at age 65 equal to (i)  $\frac{1}{12}$  of 60% (50% for Mr. Romenesko) of Final Average Earnings less (ii) the monthly benefit payable under the Company's Retirement Plan determined as of October 1, 2001. For purposes of this benefit formula, "Final Average Earnings" is defined as  $\frac{1}{5}$  of a participant's Compensation during the consecutive five years within the last 10 years preceding termination of employment during which such Compensation was the highest and "Compensation" is defined as the participant's income reported on Form W-2, including pre-tax contributions to the Retirement Savings Plan, reduced by income attributable to restricted stock and stock options, reimbursements or other expense allowances and fringe benefits. Benefits accrued on and after October 1, 2001 under the defined benefit portion of the SKERP

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will accrue pursuant to a formula that provides a monthly single life annuity at retirement at age 65 equal to  $\frac{1}{12}$  of 60% (50% for Mr. Romenesko) of 25% of the percentage increase in the participant's base salary from September 30, 2001 to the date of the participant's termination of employment. The benefits accrued by Messrs. Storch and Romenesko as of May 31, 2006 have been transferred to the defined contribution portion of the SKERP and are held in an account established and maintained thereunder for each participant.

Benefits accrued under the defined benefit portion of the SKERP for all other participants, including Mr. Clark, ceased on October 1, 2001 and were distributed to them in a lump sum as soon as practicable thereafter.

**Benefit Entitlement:** A participant is eligible to receive the benefit accrued under the SKERP following termination of employment when he attains age 65. If a participant terminates employment after he has attained age 55 and his age plus years of service equal or exceed 62, benefits will be paid on the date of his termination or on a date no later than 15 years after termination of employment, as previously specified by the participant.

**Form of Benefit Payment:** Each participant has previously elected to have the remainder of his retirement benefit paid in a lump sum. The assumptions set forth in the Company's Retirement Plan will be used to convert the retirement benefits from an annuity payment to a lump sum. The participant may change the time or form of payment in accordance with procedures set forth in the SKERP.

**Forfeiture Events:** A participant will forfeit the retirement benefit if his employment is terminated due to theft, embezzlement or fraud or willful misconduct or performance of his duties that materially injures the Company, or if during employment or the one-year period thereafter the participant violates the covenant not to compete contained in the SKERP. As a condition to receiving his retirement benefit, a participant must agree in writing to return his benefit, plus 8% interest, in the event of such forfeiture. The forfeiture provision does not apply if the participant's termination of employment causes benefits to be paid to him under Change of Control provisions of any agreement between the participant and the Company.

**Retirement Plan**

The Company's Retirement Plan is a tax-qualified pension plan. Benefit accruals ceased under the Retirement Plan with respect to most participants, including named executive officers, effective June 1, 2005. Neither Mr. Poulton nor Mr. Stinson participates in the Retirement Plan since their dates of hire were after June 1, 2005. The material terms and conditions of the Retirement Plan as they pertain to the other named executive officers are as follows:

**Benefit Formula:** Until January 1, 2000, benefits were accrued pursuant to a formula that provides a monthly single life annuity at retirement at age 65 equal to  $1\frac{1}{2}\%$  of the participant's Final Average Earnings reduced by the participant's Social Security offset determined under the Plan, multiplied by the participant's years of Credited Service (up to 20). Effective as of January 1, 2000, the Plan was converted to a cash balance type of plan, subject to a "grandfather" provision applicable to certain participants based on age and years of service. An account is maintained for each participant which consists of (i) an opening account balance equal to the present value of the benefit accrued by the participant under the prior formula as of December 31, 1999, (ii) quarterly contributions made by the Company to a percentage of compensation based on the participant's age and years of Credited Service, and (iii) quarterly

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interest credits made by the Company equal to 25% of the 30-year Treasury securities interest rate for the second month preceding the beginning of each quarter. For purposes of the benefit formulae, "Final Average Earnings" and "Compensation" have the same definitions as used in the SKERP, as discussed above.

The benefits under the Retirement Plan generally ceased accruing on June 1, 2005, although the participants' cash balance accounts continue to be credited with interest until the benefits are distributed.

*Vesting:* Participants are eligible to receive benefits from the Retirement Plan after completing five years of Vesting Service. The named executive officers who participate in the Retirement Plan are fully vested in their benefits.

*Payment of Retirement Benefits:* Participants can elect to receive their benefits upon termination of employment or they can defer receipt of benefits until normal retirement age (age 65). Any vested participant can elect benefits at any time after termination of employment, with the benefit actuarially reduced to reflect deferral to normal retirement age. The Retirement Plan also provides for a Disability retirement benefit.

*Forms of Benefit Payment:* The normal form of benefit payment for a married participant is a joint and 50% survivor annuity, and the normal form of benefit payment for an unmarried participant is a single life annuity. Participants, with spousal consent, if applicable, can waive the normal form of benefit payment and elect to have benefits paid in various annuity forms, which are the actuarial equivalent of the normal form, or in a lump sum.

*Retirement Savings Plan:* In connection with ceasing benefits under the Retirement Plan, the Company amended its Retirement Savings Plan to provide additional benefits, as described below in the discussion following the Non-qualified Compensation table.

***Non-Qualified Deferred Compensation***

The Company provides non-qualified deferred compensation benefits under the defined contribution portion of the SKERP. The table below shows the contributions made by each named executive officer and by the Company in Fiscal 2010, the earnings accrued on the named executive officer's account balance in Fiscal 2010 and the account balance as of May 31, 2010.



Table of Contents**Non-Qualified Deferred Compensation Table**

<b>Name</b>	<b>Executive Contributions in Fiscal 2010 (\$)<sup>1</sup></b>	<b>Registrant Contributions in Fiscal 2010 (\$)<sup>2</sup></b>	<b>Aggregate Earnings in Fiscal 2010 (\$)<sup>3</sup></b>	<b>Aggregate Withdrawal/Distributions (\$)</b>	<b>Aggregate Balance at May 31, 2010 (\$)<sup>4</sup></b>
David P. Storch	104,526	567,098	396,534		5,536,498
Timothy J. Romenesko	51,120	161,659	123,900		1,134,035
James J. Clark	24,845	93,080	98,267		675,994
Richard J. Poulton	17,650	55,979	12,167		161,613
Terry D. Stinson	36,226	131,032	16,716		277,241

<sup>1</sup> The amount of contributions made by each named executive officer and reported in this column in respect of salary deferrals in Fiscal 2010 is included in each named executive officer's compensation reported in the Summary Compensation Table as "Salary." The amount of contributions reported in this column also reflects deferral of cash bonuses paid in Fiscal 2010 but earned and reported in the Summary Compensation Table for Fiscal 2009.

<sup>2</sup> The amount of Company contributions reported in this column for each named executive officer is reported in the "All Other Compensation" column of the Summary Compensation Table.

<sup>3</sup> The investment earnings reported in this column for each named executive officer are not reported in the Summary Compensation Table.

<sup>4</sup> The aggregate balance as of May 31, 2010 reported in this column for each named executive officer reflects amounts that have been previously reported in the Summary Compensation Table for Fiscal 2010 or prior years, except the following amounts of earnings included in the account balance: Mr. Storch, \$643,739; Mr. Romenesko, \$49,541; Mr. Clark, \$31,359; Mr. Poulton, \$14,099; and Mr. Stinson, \$18,728. The aggregate balance as of May 31, 2010 also includes the following cumulative amounts transferred from the defined benefit portion of the SKERP: Mr. Storch, \$1,712,865; Mr. Romenesko, \$272,876.

**SKERP Defined Contribution Portion**

The defined contribution portion of the SKERP covers certain executives and key employees, including all of the named executive officers, and provides the portion of a participant's benefit that cannot be paid under the Retirement Savings Plan due to Internal Revenue Code limits, including the limit on the amount of compensation that can be taken into account in determining benefits (\$245,000 in 2009 and 2010). The material terms and conditions of the defined contribution portion of the SKERP include the following:

**Contributions:** Each participant may make an election which satisfies Code Section 409A to contribute a portion of his base salary (up to 75%) for that calendar year that exceeds the Code's compensation limit and a portion of the bonus (up to 75%) paid to him for the Company's fiscal year beginning in such calendar year that exceeds the Code's compensation limit. The Company makes a matching contribution under the SKERP using the formula in the Savings Plan (i.e., 20% of the participant's salary and bonus deferrals made under the SKERP, up to 5% of the participant's salary and bonus), as well as the portion of the Company's retirement benefit and profit sharing contributions that could not be made under the Savings Plan due to the Code's compensation limit. The Company also makes annual supplemental contributions to the accounts of the Chief Executive Officer (22% of base salary and bonus), the President (16% of base salary

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and bonus) and other eligible named executive officers (5% or 10% of base salary and bonus). To receive a credit of this contribution, the eligible participant must be employed as of the day before the contribution is made to the SKERP (unless termination of employment is due to death or Disability).

Mr. Storch and Mr. Romenesko also have amounts held in a supplemental account that were transferred from the defined benefit portion of the SKERP, which represent the lump sum value of each participant's accrued benefit as of May 31, 2006 under the defined benefit portion. These amounts are now subject to the terms and conditions of the defined contribution portion of the SKERP.

*Vesting:* A participant is fully vested in amounts attributable to his own deferral contributions, and vests in all Company contributions, except supplemental contributions, at a rate equal to 33<sup>1</sup>/<sub>3</sub>% for each year of vesting service (subject to full vesting upon age 65, death or Disability). A participant vests in amounts attributable to Company supplemental contributions (i) made prior to October 17, 2007, upon the earlier of age 65, or age 57 with 15 years of service, and (ii) after October 17, 2007, upon the earlier of age 65, or age 55 with the sum of age and years of service equal to at least 75.

*Investments:* Each participant's plan accounts are credited with earnings and losses based on investment alternatives made available by the plan committee as selected by the participant from time to time. The investment options currently offered under the SKERP consist of 24 mutual funds including 10 "Life Cycle" choices. Participants may change investment elections at any time.

*Distributions:* Distribution of a participant's accounts is generally made upon the participant's termination of employment or on a date no later than 15 years after termination of employment, as previously specified by the participant. Participants were to elect by December 31, 2005 whether their accounts are to be paid in a lump sum or installments not to exceed 15 years (a participant who failed to make an election will have his account paid in a lump sum). Notwithstanding the foregoing, (i) a participant may elect distribution of the portion of his accounts earned and vested as of December 31, 2004 (and earnings thereon) upon six months advance written election or if such distribution is subject to a 10% forfeiture; (ii) a participant can change the time and form of payment of the portion of his accounts earned and vested after December 31, 2004 in accordance with procedures set forth in the plan; (iii) a participant can elect a distribution at any time in order to satisfy an unforeseeable hardship (as defined in the plan); and (iv) in the event of a potential Change in Control of the Company (as determined by the Board), the portion of the participant's accounts earned and vested as of December 31, 2004 (including earnings thereon) will be distributed in an immediate lump sum. Distributions to "key employees" as defined in Code Section 409A upon termination of employment will not be paid earlier than six months following such termination.

*Forfeiture Events:* A participant will forfeit the portion of his plan accounts attributable to Company supplemental contributions and to amounts transferred from the defined benefit portion of the SKERP, if applicable, if his employment is terminated due to theft, embezzlement or fraud or willful misconduct in the performance of his duties that materially injures the Company, or if during employment or the one-year period thereafter the participant violates the covenant of good faith and loyalty contained in the SKERP. As a condition to receiving such amounts, a participant must agree in writing to return such amounts, plus 8% interest, in the event of such

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forfeiture. The forfeiture provision does not apply if the participant's termination of employment causes benefits to be paid to him under change in control provisions of any agreement between the participant and the Company.

***Retirement Savings Plan***

The Retirement Savings Plan is a tax-qualified retirement plan that covers most U.S. employees, including the named executive officers. The material terms and conditions of the Retirement Savings Plan are as follows:

***Contributions:*** A participant can elect to defer 1% to 75% of his Compensation on a pre-tax basis, up to a maximum of \$16,500 for 2010, or \$22,500 if age 50 or older. Participation for non-union employees hired after June 1, 2007 is automatic, unless the participant affirmatively elects not to participate or to participate at a different deferral amount. The automatic deferral rate for participants hired after June 1, 2007 and prior to June 26, 2009 is 3% of compensation, and the automatic deferral rate for participants hired on or after June 26, 2009 is 5%, with annual increases of 1%. The Company provides a matching contribution, a profit sharing contribution and a retirement benefit contribution. The current matching contribution is made as of each payroll period in an amount equal to 20% of the participant's pre-tax contributions (up to 5% of compensation) to the Plan for such payroll period. The profit sharing contribution is made as of the end of each calendar year and is based on the participant's pre-tax contributions and the economic performance of the participant's operating unit and is equal to a percentage of the participant's compensation, up to 4%. The retirement benefit contribution, which is also made as of the end of each calendar year, was added to the Plan, effective June 1, 2009, and is equal to a percentage of compensation (up to 4%) based on the participant's age and years of credited service. A participant must have earned a year of service to be eligible for a retirement benefit contribution, and generally must be employed on the last day of the calendar year to receive a profit sharing contribution. Compensation for purposes of determining contributions includes cash compensation shown as income on the participant's Form W-2, reduced by pre-tax contributions to the plan and excluding the income attributable to restricted stock options, reimbursements or other expense allowances and fringe benefits and is subject to the Code's compensation limit (\$245,000 for 2009 and 2010).

***Investments:*** Each participant's plan accounts are credited with earnings and losses based on investment alternatives made available by the plan committee and selected by the participant from time to time. The investment options currently offered under the plan consist of 24 mutual funds including 10 "Life Cycle" fund choices. Participants may change investment elections at any time.

***Vesting:*** Participants hired prior to July 1, 1999 are fully vested in their accounts under the plan. Participants hired on or after January 1, 1999 are fully vested in their pre-tax contribution accounts, and vest in the Company contribution accounts at a rate equal to 33<sup>1</sup>/<sub>3</sub>% for each year of vesting service (subject to full vesting upon age 65, death or Disability).

***Distributions:*** Participants can elect distributions of the plan accounts upon termination of employment, in a lump sum, an eligible rollover distribution, or, if normal retirement has been attained, in installments not to exceed 15 years.

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**Potential Payments Upon Termination of Employment or a Change in Control of the Company**

The Company provides certain benefits to eligible employees upon certain types of termination of employment, including a termination of employment involving a Change in Control of the Company. These benefits are in addition to the benefits to which the employees would be entitled upon a termination of employment generally (i.e., vested retirement benefits accrued as of the date of termination, stock options and restricted stock that are otherwise vested as of the date of termination and the right to elect continued health coverage pursuant to COBRA). These benefits as they pertain to the named executive officers are as described set forth in the tables on pages 41-42.

***Employment Agreement of David P. Storch***

The Company has entered into an amended and restated employment agreement with Mr. Storch for a term that ends on May 31, 2014. The agreement retains the following severance benefits under the prior agreement (unless otherwise noted):

***Termination of Employment Prior to a Change in Control:*** If prior to a Change in Control, either the Company terminates his employment without Cause or Mr. Storch terminates his employment for Good Reason, Mr. Storch is entitled to (i) continued payment of his base salary for 36 months, and (ii) a lump sum payment equal to three times the average of the cash incentive bonus paid to him for the preceding three fiscal years of the Company. Payments cease upon any material breach of the confidentiality and non-compete provisions set forth in the agreement (the non-compete provisions remain in effect for the two-year period following any such termination of employment).

***Termination of Employment Following a Change in Control:*** If Mr. Storch's employment is terminated within 24 months following a Change in Control of the Company other than for Cause or Disability or by Mr. Storch for Good Reason, or if his employment terminates for any reason other than Disability or death during the 30-day period following the 24<sup>th</sup> month after a Change in Control, he is entitled to:

an immediate lump sum payment equal to the sum of (A) any unpaid salary through the date of termination and any unpaid bonus earned for the preceding fiscal year, (B) a pro rata portion of the bonus that would have been paid to him had he remained employed until the end of the fiscal year and all performance targets were met, and (C) (1) if termination is within the 24-month period for other than Cause, or for Disability or Good Reason, three times his base salary and cash bonus for either the most recently completed fiscal year prior to the termination or the preceding fiscal year, whichever produces the higher amount or (2) if termination is by Mr. Storch during the 30-day period following the 24-month period, an amount equal to \$4,747,770 (pursuant to the amended and restated employment agreement, this amount reflects the computation described in (C)(1) above based on base salary and bonus paid in Fiscal 2010);

continued coverage for Mr. Storch and his spouse under the Company's welfare and fringe benefit plans for three years following termination of employment (he and his spouse can elect continued medical and dental coverage pursuant to COBRA at the end of such three-year period);

a lump sum payment of an amount equal to the lesser of (A) three times the amount of Company contributions made under the Retirement Savings Plan and the defined

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contribution portion of the SKERP for the calendar year preceding the year in which the termination occurs or (B) \$1,575,876, plus, in each case, a gross-up payment to cover any related income tax liability (pursuant to the amended and restated agreement, this amount reflects the computation described in (A) above based on Company contributions made for the 2009 calendar year);

Company-paid outplacement services for 18 months or, if earlier, the attainment of new employment (up to a maximum Company expense of 3.5% of the amount paid to Mr. Storch pursuant to (B) in the first bullet point above);

reasonable legal fees incurred by Mr. Storch in enforcing the agreement; and

a gross-up payment to cover any excise and related tax liability arising under Section 280G of the Internal Revenue Code as a result of any payment or benefit arising under the agreement.

Mr. Storch is also entitled to the benefits described above under "Termination of Employment - Prior to Change in Control" if he terminates his employment with the Company for Good Reason after the 30<sup>th</sup> day following the 24<sup>th</sup> month after a Change in Control. The employment agreement's non-compete provisions do not apply in the event of a termination of employment following a Change in Control.

*General:* Regardless of whether a Change of Control is involved:

if Mr. Storch's termination is due to Retirement, he and his spouse are entitled to continued coverage under the Company's medical, dental, vision, life insurance, welfare and executive health programs for his (and his spouse's) lifetime (or until he obtains health coverage from a new employer);

if Mr. Storch's employment terminates due to Disability, he will receive payment pursuant to the Company's Disability plans then in effect and he will continue to receive coverage under the Company's medical, dental, and life insurance plans for three years following such termination (the amended and restated employment agreement provides that payments under the Company's Disability plans will be at a level no less favorable than that in effect on May 31, 2010); and

if Mr. Storch's employment is terminated following the expiration of his agreement, he will be entitled to receive the same benefits as if he had been terminated without Cause by the Company prior to a Change in Control.

In any event, payments under the employment agreement in connection with Mr. Storch's termination of employment that would be considered deferred compensation under Section 409A of the Internal Revenue Code will be delayed for six months following such termination to the extent necessary to comply with Section 409A.

For purposes of Mr. Storch's employment agreement:

"Change in Control" means (i) a person's acquisition of more than 35% of the voting power of the Company's outstanding stock, (ii) a merger or consolidation of the Company that results in the holders of the voting stock immediately prior thereto holding less than 60% of the voting stock of the resulting or surviving entity, (iii) the sale of substantially all of the Company's assets other than to an entity at least 80% owned by the Company, or (iv) the election, without the consent of the incumbent Board, of a majority of the directors then in office.

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"Cause" means Mr. Storch's (i) dishonesty, intentional breach of fiduciary duty, or intentional wrongdoing or malfeasance, (ii) disregard of a material and proper direction from the Board, or (iii) material breach of the Agreement that is not cured within 30 days of receipt of notice from the Company.

"Disability" means a physical or mental condition that has prevented Mr. Storch from substantially performing his duties under the employment agreement for a period of 180 days and that is expected to continue to render Mr. Storch unable to substantially perform his duties for the remaining term of the employment agreement on a full-time basis.

"Good Reason" means (i) a material reduction in the nature or scope of Mr. Storch's duties or responsibilities or in his compensation (including benefits), (ii) a material breach of the Agreement by the Company that is not cured within 30 days of receipt of notice from Mr. Storch, or (iii) a relocation of his primary place of employment by 50 or more miles.

"Retirement" means Mr. Storch's voluntary termination of employment that does not result in severance payments under the employment agreement.

***Severance and Change in Control Agreements***

The Company has severance and change in control agreements with Messrs. Romenesko, Clark and Poulton and with certain other key employees. The agreements as they pertain to these named executive officers provide for the following benefits upon the following types of employment termination:

*Termination of Employment Prior to a Change in Control:* If a Change in Control of the Company has not occurred and the executive's employment is terminated by the Company other than for Cause, he is entitled to (i) continued salary for 12 months or, if earlier, until he obtains comparable employment, (ii) any earned bonus not yet paid for the preceding fiscal year, and (iii) a pro-rata portion of the bonus that would have been paid to the executive had he remained employed until the end of the fiscal year in which the termination occurs. Any bonus will be paid in a lump sum on the later of the time bonuses are paid to other officers and the end of the severance period (with interest at the prime rate plus 1% from the earlier of such dates). If the executive terminates his employment, or if the Company terminates the executive's employment for Cause, the Company may, but is not required to, pay the above-described severance benefits. Severance payments will cease if the executive breaches the confidentiality or non-compete provisions in the agreement, which are in effect for the one-year severance period.

*Termination of Employment Following a Change in Control:* If the executive's employment is terminated within 18 months (24 months for Mr. Clark) following a Change in Control by the Company other than for Cause or Disability or by the executive for Good Reason, or if the executive's employment terminates for any reason other than Disability or death during the 30-day period following the 18<sup>th</sup> month (24<sup>th</sup> month for Mr. Clark) after a Change in Control, he is entitled to (i) an immediate lump sum payment equal to the sum of (A) any unpaid salary and bonus earned for the preceding fiscal year, (B) a pro rata portion of the bonus that would have been paid to the executive had he remained employed until the end of the fiscal year and as if all performance targets had been met (including the value of any restricted stock granted in lieu of bonus), and (C) two or three times base salary and cash bonus (depending upon the executive involved) for either the recently completed fiscal year prior to the termination or the preceding fiscal year, whichever produces the higher amount, (ii) continued coverage for the

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executive and his dependents under the Company's welfare and fringe benefit plans (medical, dental and life insurance plans for Mr. Clark) for three years following termination of employment (the executive and his dependents can elect continued medical and dental coverage pursuant to COBRA at the end of such two- or three-year period), (iii) an immediate lump sum payment equal to the actuarial equivalent of the additional benefits that would be earned under the Company's retirement plans with three additional years of service and, for Mr. Romenesko, a gross-up payment to cover any related income tax liability, (iv) Company-paid outplacement services for the earlier of 18 months or the attainment of new employment (up to a maximum Company expense of 3.5% of the amount paid to the executive pursuant to (i)(C) above), (v) reasonable legal fees incurred by the executive in enforcing the agreement, and (vi) a gross-up payment to cover any expense and related tax liability arising under Section 280G of the Internal Revenue Code as a result of any payment or benefit arising under the agreement. The agreement's non-compete provisions do not apply in the case of a termination of employment following a Change in Control.

*Termination of Employment - Disability:* If the executive's employment terminates due to Disability, the executive will receive payment pursuant to the Company's disability plans then in effect and will continue to receive coverage under the Company's medical, dental and life insurance plans for three years following such termination.

*Acceleration of Equity Awards:* The severance and change in control agreements also provide that upon any Change in Control, all outstanding stock options and restricted stock will vest immediately.

For purposes of the severance and change in control agreements:

"Change in Control" means (i) a person's acquisition of more than 20% of the voting power of the Company's outstanding stock, (ii) a merger or consolidation of the Company that results in the holders of the voting stock immediately prior thereto holding less than 60% of the voting stock of the resulting or surviving entity, (iii) the sale of substantially all of the Company's assets other than to an entity at least 80% owned by the Company, or (iv) the election, without the consent of the incumbent Board, of the lesser of three directors or a majority of the directors then in office.

"Cause" means the executive's (i) dishonesty, intentional breach of fiduciary duty, or intentional wrongdoing, (ii) disregard of a material and proper direction of the Board, or (iii) material breach of the agreement that is not cured within 10 days of receipt of notice from the Company.

"Disability" means a physical or mental condition that has prevented the executive from substantially performing his duties under the agreement for a period of 180 days and that is expected to continue to render the executive unable to substantially perform his duties for the remaining term of the agreement on a full-time basis.

"Good Reason" means (i) a material reduction in the nature or scope of the executive's duties or responsibilities, or in his compensation (including benefits), (ii) if Mr. Storch is not the Chief Executive Officer at the time of termination, the executive's determination that as a result of a material change in employment circumstances he is unable to adequately carry out his duties, or (iii) a relocation of the executive's primary place of employment by more than 100 miles.

In any event, payments under the agreements in connection with termination of employment that would be considered deferred compensation under Section 409(a) of the Internal Revenue Code

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will be delayed for six months following such termination to the extent necessary to comply with Section 409A.

***Split Dollar Insurance Agreements***

The Company has entered into split dollar life insurance agreements with certain key employees, including Messrs. Storch, Romenesko and Clark. Under the agreements, the employees own the policies, except for the cash value portion of the policies owned by the Company. The Company funds the annual insurance premiums for the policies during the term of the agreement subject to reimbursement from the cash value or death benefit proceeds of the policies. Upon a Change in Control of the Company (as defined above), the Company will prepay all premiums, plus any amounts necessary for the cash value and death benefits to be at the same level at the Change in Control date. If the executive's employment terminates after a Change in Control and benefits are paid under the severance and change in control agreements, the Split Dollar Agreements will continue for the severance period.

***Stock Benefit Plan***

A named executive officer's termination of employment can result in enhanced benefits under the Company Stock Benefit Plan, depending on the reason for such termination:

***Stock Options:*** If termination is due to Retirement (as defined in the Plan), options to continue to vest in accordance with the vesting schedule and can be exercised until the expiration date, except that if death occurs before the award expires, then unvested stock options are forfeited. If death occurs within three months of Retirement, vested options can be exercised until the earlier of one year after death or the option expiration date, and if death occurs after three months from Retirement, vested options can be exercised until the option expiration date. If termination is due to Disability (as defined in the Stock Benefit Plan), options to continue to vest and are exercisable until the earlier of one year after termination of employment and the option expiration date, except that if death occurs before the award expires, then unvested options are forfeited and vested options are exercisable for the period described herein. If death occurs during, or within three months after termination of, employment for reasons other than Cause, then unvested options are forfeited and vested options are exercisable until the earlier of one year after death or the option expiration date.

***Restricted Stock Awards:*** If the termination is due to Retirement, restricted stock awards continue to vest in accordance with their vesting schedule. If the termination is due to Disability (as defined in the Stock Benefit Plan) or death on or before the third anniversary of the date of grant, then the difference between one-half of the total award shares and the number of shares already vested will vest as of such termination. If the termination is due to Disability or death after the third anniversary of the date of grant, all awards shares will vest as of such termination.

The Stock Benefit Plan has change in control provisions that apply to participants who do not have a severance and change in control agreement. Upon a Change in Control of the Company (as defined in the Stock Benefit Plan) that does not have prior written approval of the Board, all options and restricted stock awards will not fully vest. Upon a change in control that has the approval of the Board, the Compensation Committee has the discretion to either provide for full vesting of options and restricted stock awards or grant replacement awards with respect to the successor company's stock.



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**Tables of Potential Payments Upon Termination  
of Employment or a Change in Control**

The tables set forth below quantify the additional benefits described above that would be paid to each named executive officer under the following termination employment or change in control events, assuming a change in control or a termination of employment occurred on May 28, 2010 (the last business day of Fiscal 2010).

**Change in Control**

<b>Name</b>	<b>Vesting of Restricted Stock (\$)<sup>1</sup></b>	<b>Vesting of Stock Options (\$)<sup>2</sup></b>
David P. Storch	6,028,220	920,000
Timothy J. Romenesko	2,324,600	460,000
James J. Clark	1,398,700	46,000
Richard J. Poulton	1,083,500	279,360
Terry D. Stinson	685,954	46,600

<sup>1</sup> Under the Stock Benefit Plan and severance and change in control agreements, all restricted stock generally vests upon a Change in Control of the Company. See " Stock Benefit Plan" above. The amounts shown reflect the number of shares that would have vested upon a Change in Control on May 28, 2010, based on the number of shares multiplied by \$19.70, the closing price of the Common Stock on May 28, 2010.

<sup>2</sup> Under the Stock Benefit Plan and severance and change in control agreements, all stock options generally vest upon a Change in Control of the Company. See " Stock Benefit Plan" above. The amounts shown reflect the number of option shares, multiplied by the difference (but not less than zero) between the option exercise price and \$19.70, the closing price of the Common Stock on May 28, 2010.

**Termination of Employment Prior to a Change in Control**

<b>Name</b>	<b>Other than Cause</b>				<b>Health and Welfare (\$)<sup>5</sup></b>	<b>Health and Welfare (\$)<sup>6</sup></b>	<b>Disability</b>		<b>Death</b>	
	<b>Salary (\$)<sup>1</sup></b>	<b>Bonus (\$)<sup>2</sup></b>	<b>Restricted Stock (\$)<sup>3</sup></b>	<b>Stock Options(\$)<sup>4</sup></b>			<b>Restricted Stock (\$)<sup>7</sup></b>	<b>Stock Options(\$)<sup>4</sup></b>	<b>Restricted Stock (\$)<sup>7</sup></b>	
David P. Storch	2,421,363	3,039,190	6,028,220	920,000	282,761	32,464	4,550,720	920,000	4,550,720	
Timothy J. Romenesko	459,000	451,882	2,324,600	460,000		40,255	1,487,350	460,000	1,487,350	
James J. Clark	326,211	125,000	1,398,700	46,000		40,255	1,053,950	46,000	1,053,950	
Richard J. Poulton	360,000	267,767	1,083,500	279,360		40,255	640,250	279,360	640,250	

<sup>1</sup> Reflects continued salary for 36 months for Mr. Storch under his employment agreement and continued salary for 12 months for the other named executive officers under their severance and change in control agreements.

<sup>2</sup> Reflects (i) in the case of Mr. Storch, three times the average of the non-equity incentive plan compensation or bonus paid to him for the three preceding fiscal years, and (ii) in the case of the other named executive officers, the non-equity incentive plan compensation bonus paid for Fiscal 2010 as shown in the Summary Compensation Table.

<sup>3</sup> The amounts in this column reflect the value of the restricted stock that would vest pursuant to the Stock Benefit Plan if termination is due to Retirement on May 28, 2010, based on the number of shares, multiplied by \$19.70, the closing price of the Common Stock on May 28, 2010.

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The amounts in this column reflect the value of the continued vesting of options pursuant to the Stock Benefit Plan if termination is due to Retirement Disability at May 28, 2010 based on the difference between the exercise price and \$19.70, the closing price of the Common Stock on May 28, 2010.

Available under Mr. Storch's employment agreement upon his retirement.

Available under Mr. Storch's employment agreement and the severance and change in control agreements for the other named executive officers.

The amounts in these columns reflect the value of the restricted stock that would vest upon termination due to Disability or death at May 28, 2010, based on the number of shares, multiplied by \$19.70, the closing price of the Common Stock on May 28, 2010.

### Termination of Employment Following a Change in Control<sup>1</sup>

Name	Salary (\$)	Bonus (\$) <sup>2</sup>	Health and Welfare Continuation (\$)	Additional Retirement Plan Credits (\$)	Outplacement Services (\$)	280G Gross-Up (\$)
David P. Storch	2,421,363	4,358,187	32,464	2,626,460 <sub>3</sub>	205,942	
Timothy J. Romenesko	1,377,000	2,111,479	40,255	1,062,809 <sub>3</sub>	106,281	2,588,860
James J. Clark	978,634	950,000	40,255	270,545	63,127	1,205,318
Richard J. Poulton	720,000	905,939	40,255		47,536	

Reflects three times salary for Mr. Storch under his employment agreement and two or three times salary (depending on the officer involved) for the named executive officers under their severance and change in control agreements.

Reflects (i) in the case of Mr. Storch, the non-equity incentive plan compensation bonus paid to him for Fiscal 2010 as shown in the Summary Compensation Table, plus three times his non-equity incentive plan compensation bonus for either the most recently completed fiscal year prior to termination or the preceding fiscal year, whichever produces the higher amount (except that upon termination by Mr. Storch for other than Disability or death during the 30-day period following the 24<sup>th</sup> month after a Change in Control, Mr. Storch would receive \$4,747,770), and (ii) in the case of the named executive officers, the non-equity incentive compensation plan bonus paid to them for Fiscal 2010 as shown in the Summary Compensation Table, plus two or three times the non-equity incentive plan compensation bonus (depending on the officer involved) for either the most recently completed fiscal year prior to termination or the preceding fiscal year, whichever produces the higher amount.

Includes an income tax gross-up payment.

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**VII. PROPOSAL 2**

**APPROVAL OF THE AAR CORP. SECTION 162(m) ANNUAL CASH INCENTIVE PLAN**

The Board of Directors of the Company has approved, upon the recommendation of the Compensation Committee and subject to the approval of the Company's stockholders at the 2010 Annual Meeting of Stockholders, the AAR CORP. Section 162(m) Annual Cash Incentive Plan (the "Plan").

Stockholders are being asked to approve the Plan to ensure that annual cash bonuses paid to Plan participants will qualify as "performance-based" compensation under Section 162(m) of the Code and thus be fully deductible by the Company for federal income tax purposes. Section 162(m) and related guidance generally preclude a publicly traded company from taking a tax deduction for compensation in excess of \$1 million paid to certain executives. These executives are the company's chief executive officer and the three other highest paid executives, other than the chief financial officer, who are the named executive officers listed in the Summary Compensation Table of the public company's annual proxy statement. The deduction limitation is subject to an exception for "performance-based" compensation that meets certain requirements, including a requirement that the "material terms of the performance goals" applicable to these named executive officers must be disclosed to and approved by stockholders before any compensation is paid to them. Stockholder approval of the Plan will constitute approval of the Plan's "material terms of the performance goals" within the meaning of the regulations under Section 162(m).

If the Plan is approved by stockholders, it will be effective for Fiscal 2011, beginning June 1, 2010 and ending May 31, 2011, and will remain in effect for each fiscal year thereafter until terminated by the Board. No compensation will be paid under the Plan to the named executive officers covered by the Plan unless the Plan is approved by stockholders.

The following is a summary of the Plan. It is qualified in its entirety by reference to the full text of the Plan, which is attached as Appendix B to this proxy statement.

**Description of the Plan**

*General.* The Plan is intended to work in conjunction with the Company's Short-Term Incentive Plan, pursuant to which annual cash bonuses are paid to eligible employees only upon the attainment of certain performance goals designated by the Compensation Committee. The purpose of the Plan is to set a ceiling on the performance-based bonuses that are paid under the Short-Term Incentive Plan so that such bonuses will meet the deductibility requirements of Section 162(m).

*Administration.* The Plan is administered by the Compensation Committee, or such other committee appointed by the Board that is comprised of at least two "outside directors" as defined in Section 162(m) (the "Committee"). The Committee has full authority to select the employees eligible for bonus awards under the Plan, determine when an employee's participation in the Plan will begin, determine the amounts payable under the Plan, and make all other decisions necessary for the proper administration of the Plan.

*Eligibility.* The Plan covers the Chief Executive Officer and the three other highest paid employees (other than the Chief Financial Officer) who are listed as named executive officers in the Company's proxy statement. The Chief Financial Officer is not subject to Section 162(m).

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under regulations issued thereunder. The Committee also has the discretion to designate other employees as covered under the Plan. For Fiscal 2011, only the named executive officers (other than the Chief Financial Officer) will be covered by the Plan. These executives are Messrs. Storch, Romenesko, Clark and Sti

*Performance Goal and Determination of Awards.* The performance goal under the Plan upon which awards, if any, will be based is the Company's net income for a given fiscal year. The Plan establishes a maximum award opportunity for each category of Plan participants, expressed as a percentage of the Company's net income for the applicable fiscal year: for the Chairman and Chief Executive Officer 5% of net income; for the President and Chief Operating Officer 3% of net income; and for each other Plan participant 2% of net income. Following completion of the fiscal year, the Committee will determine the amount of each participant's maximum award opportunity solely on the basis of the Company's net income for that Plan year.

The Committee has the discretionary authority to reduce the maximum award opportunity amount, taking into account individual and/or corporate performance and such other factors as it deems appropriate, in order to determine the actual bonus award to be paid to each Plan participant. The Committee intends to exercise its discretion and thus does not anticipate that any participant will receive the maximum award opportunity amount under the Plan. For Fiscal 2011, the Committee has established performance criteria for each participant under the Short-Term Incentive Plan, and intends to exercise its negative discretion under the Plan to provide that the actual bonuses to be paid to Plan participants will be the bonuses determined based on performance under the Short-Term Incentive Plan. The Plan prohibits the Committee from increasing a participant's award above a participant's maximum award opportunity.

*Payment of Awards.* Bonuses will be paid in cash to participants (or their beneficiaries in the event of death) prior to August 15 following the fiscal year for which the bonus was earned. In lieu of receiving the bonus payment directly, a participant can make an advance election to defer the bonus payment in accordance with the Company's Supplemental Key Employee Retirement Plan.

Bonuses payable under the Plan for Fiscal 2011 and future years cannot currently be determined because they will depend on the attainment of the Company's net income goal and of specified performance goals under the Short-Term Incentive Plan, as well as the exercise of negative discretion by the Committee to limit or reduce a participant's maximum award opportunity amount. If the Plan had been in effect for Fiscal 2010 when the Company had net income of \$44.6 million, the bonuses that would have been paid to the participants under the Plan are the same amounts that were actually paid to them under the Short-Term Incentive Plan for Fiscal

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2010, as shown below and in the "Non-Equity Incentive Plan Compensation" column of the Summary Compensation Table:

	Maximum Award Opportunity	Actual Award
David P. Storch (Chairman and CEO)	\$2.23 million	\$895,494
Timothy J. Romenesko (President and COO)	\$1.34 million	\$451,882
James J. Clark	\$892,000	
Terry D. Stinson	\$892,000	\$747,840

*Amendment or Termination.* The Board may amend or terminate the Plan at any time, without the consent of participants and without the approval of the stockholders of the Company, provided that no amendment or termination shall affect the Company's obligation to pay any bonus amount after it has been earned by a participant.

**Vote Required**

The affirmative vote of a majority of the shares of Common Stock present in person or represented by proxy and voting at the Annual Meeting is required to approve the AAR CORP. Section 162(m) Annual Cash Incentive Plan.

**The Board of Directors unanimously recommends that you vote "FOR" the approval of the AAR CORP. Section 162(m) Annual Cash Incentive Plan.**

**VIII. AUDIT COMMITTEE REPORT FOR FISCAL 2010**

On May 31, 2010, the Audit Committee was comprised of six independent directors. The Board has determined that each member of the Audit Committee is independent within the meaning of the applicable SEC regulations, NYSE rules and the Company's Categorical Standards and Policy for Determining Director Independence.

The Company's management is primarily responsible for the Company's financial statements and the quality and integrity of the reporting process and systems of internal control. The Company's independent registered public accounting firm is responsible for auditing the Company's financial statements and the effectiveness of internal controls over financial reporting and for expressing opinions thereon. The Audit Committee has the authority to obtain advice and assistance from outside legal, accounting or other advisors as the Audit Committee deems necessary to carry out its duties with funding from the Company.

In fulfilling its oversight responsibilities, the Audit Committee has reviewed and discussed the Company's audited financial statements for the fiscal year ended May 31, 2010 with the Company's management and representatives of the Company's independent registered public accounting firm, including a discussion of the reasonableness of significant judgments and accounting estimates, and clarity of disclosures in the financial statements. The Audit Committee also reviewed with management and the independent registered public accounting firm the preparation of the financial statements and related disclosures contained in the Company's

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earnings announcements and quarterly reports. Management has represented to the Audit Committee that the Company's financial statements were prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and the independent registered public accounting firm has expressed an opinion based on their audit that the financial statements are in conformance with GAAP in all material respects. The Audit Committee is not responsible for planning or conducting audits, or the determination that the Company's financial statements are complete and accurate and in accordance with GAAP. That is the responsibility of management and the independent registered public accounting firm.

The Audit Committee reviewed and discussed with the independent registered public accounting firm and management the overall scope and plans for the audit, the quality, adequacy and assessment of the effectiveness of internal controls over financial reporting, and the Internal Audit Department's management, organizational responsibilities, budget and staffing. The Audit Committee also met with the independent registered public accounting firm representatives without management present and discussed the results of their audits, their evaluation of the Company's internal controls over financial reporting, disclosure controls and the overall quality (not just acceptability) of the Company's accounting policies and financial reporting.

The Audit Committee also discussed with the representatives of the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards, No. 61, *Communications with Audit Committees*, as amended by SAS 90 *Audit Committee Communications*, the independent registered public accounting firm's independence from the Company and its management, including the matters in the written disclosures and letter furnished to the Audit Committee by the independent registered public accounting firm and required by applicable requirements of the Public Company Accounting Oversight Board. The Audit Committee determined that the non-audit services provided to the Company by the independent registered public accounting firm are compatible with maintaining the independent registered public accounting firm's independence.

In reliance on its review of the audited financial statements and the discussions referred to above and subject to the limitations on the role and responsibilities of the Audit Committee referred to above and in the charter, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended May 31, 2010 for filing with the SEC.

The Audit Committee also reviewed and assessed the adequacy of the Audit Committee Charter and conducted an Audit Committee self-assessment in which it concluded that the Committee operates effectively and successfully carried out all of its Charter responsibilities.

Respectfully submitted,

Audit Committee

James E. Goodwin, Chairman  
Norman R. Bobins  
James G. Brocksmith, Jr.  
Gerald F. Fitzgerald, Jr.  
Marc J. Walfish  
Ronald B. Woodard

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COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Company's independent registered public accounting firm reports to, and is engaged at the direction of, the Audit Committee.

The Audit Committee of the Company's Board of Directors appointed KPMG LLP ("KPMG") as the Company's independent registered public accounting firm for Fiscal 2011, after consideration and determination of KPMG's independence in light of all services rendered to the Company and its performance as the Company's independent registered public accounting firm in prior years. The Board of Directors asks that the stockholders ratify the appointment of KPMG as the Company's independent registered public accounting firm for Fiscal 2011. Representatives of KPMG are expected to be present at the Annual Meeting, with the opportunity to make a statement if they so desire and to respond to appropriate questions of stockholders.

**Independent Registered Public Accounting Firm Fees and Services**

The following table sets forth the aggregate fees billed by KPMG to the Company for Fiscal 2010 and Fiscal 2009 for audit, audit related, tax, and other services provided by the Company's independent registered public accounting firm:

**Independent Registered Public Accounting Firm Fees and Services**

<b>Description of Fees</b>	<b>Fiscal 2010</b>		<b>Fiscal 2009</b>	
Audit Fees	\$	1,490,000	\$	1,440,000
Audit Related Fees <sup>1</sup>		243,090		62,935
Tax Fees <sup>2</sup>		268,588		337,128
All Other Fees <sup>3</sup>		40,000		0

<sup>1</sup> Audit related fees in Fiscal 2010 and Fiscal 2009 were for a comfort letter, statutory audits of foreign subsidiaries and acquisition due diligence.

<sup>2</sup> Tax fees include domestic and foreign income tax return reviews.

<sup>3</sup> All other fees in Fiscal 2010 represent consultation and assistance regarding government contract accounting.

Audit Committee pre-approval is required for any audit, audit related, tax or other services to be provided by the independent registered public accounting firm in excess of \$100,000 in the aggregate, with the Audit Committee Chairman to report any decisions to pre-approve such services to the full Audit Committee at its next meeting.

Table of Contents**Vote Required**

The affirmative vote of a majority of the shares of Common Stock present in person or represented by proxy and voting at the Annual Meeting is required to ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm.

**The Board of Directors unanimously recommends that stockholders vote "FOR" this proposal.**

**X. EQUITY COMPENSATION PLAN INFORMATION**

The following table provides information as of May 31, 2010 with respect to the Company's compensation plans under which equity securities of the Company were authorized for issuance (shares in thousands):

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by securities holders	1,543	\$ 19.28	5,141
Equity compensation plans not approved by securities holders			
<b>Total</b>	<b>1,543</b>	<b>\$ 19.28</b>	<b>5,141</b>

**XI. OTHER BUSINESS**

Management knows of no other matters which are to be brought before the Annual Meeting. However, if any other matters properly come before the Annual Meeting, the named proxy holders will vote all proxies in their discretion and best judgment on such other matters.



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**XII. STOCKHOLDER PROPOSALS FOR THE 2011 ANNUAL MEETING**

Any stockholder who, in accordance with SEC Rule 14a-8, wishes to present a proposal for consideration at the Annual Meeting of Stockholders to be held in 2011, must submit such proposal to the Company, in writing, to be received by the Secretary of the Company, AAR CORP., One AAR Place, 1100 N. Wood Dale Road, Wood Dale, Illinois 60191, no later than May 5, 2011, in order for the proposal to be eligible for inclusion in the Company's proxy statement and form of proxy for that meeting. The proposal must comply with applicable SEC rules and the Company's By-Laws.

Under the Company's By-Laws, any stockholder who wishes to submit a matter (other than a stockholder proposal brought in accordance with SEC Rule 14a-8) for consideration at the 2011 Annual Meeting of Stockholders, including any stockholder proposal or director nomination, that would not be included in the Company's proxy statement must submit the matter to the Company, in writing, to be received by the Secretary of the Company no later than April 18, 2011. The notice of such matter must contain the information required by the By-Laws.

By Order of the Board of Directors

Robert J. Regan

*Vice President, General Counsel and Secretary*

September 1, 2010

**UPON THE WRITTEN REQUEST OF ANY RECORD HOLDER OR BENEFICIAL OWNER OF COMMON STOCK OF AAR CORP., THE COMPANY WILL PROVIDE, WITHOUT CHARGE, A COPY OF ITS ANNUAL REPORT ON FORM 10-K FILED WITH THE SECURITIES AND EXCHANGE COMMISSION FOR THE FISCAL YEAR ENDED MAY 31, 2010. REQUESTS SHOULD BE MADE TO MR. ROBERT J. REGAN, PRESIDENT, GENERAL COUNSEL AND SECRETARY, AAR CORP., ONE AAR PLACE, 1100 NORTH WOOD DALE ROAD, WOOD DALE, ILLINOIS 60191, (630) 227-2000.**

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**APPENDIX A AAR CORP. CATEGORICAL STANDARDS AND POLICY FOR DETERMINING DIRECTOR INDEPENDENCE**

It is the policy and practice of AAR CORP. (the "Company") that the directors of the Company, when carrying out their duties, must exercise their independent judgment in good faith and in the best interests of the Company and its stockholders as a whole.

In addition, it is the policy of the Company that a majority of its directors, and all directors serving on the Audit Committee, Compensation Committee and Nominating and Governance Committee, shall be "independent," as determined by the Board in accordance with the independence standards of the New York Exchange ("NYSE").

At least once each year, the Board shall review the "independence" of each director and any nominee for director and make a determination whether the director or nominee has any material relationship with the Company (either directly or indirectly as a partner, shareholder, or officer of an organization that has a relationship with the Company) that would impair the director's ability to exercise independent judgment as a member of the Board.

To assist it in determining a director's "independence," the Board has adopted the following categorical standards for determining director "independence" stated with respect to service as a director\*:

\*  
The foregoing categorical standards shall be deemed to be automatically updated to reflect any changes made to the NYSE listing standards and shall be interpreted in the same manner as such standards.

1. For purposes of these categorical standards, the "Company" includes each of the Company's subsidiaries and "immediate family member" means a person's spouse, parents, children, siblings, mothers- and fathers-in-law, sons- and daughters-in-law, brothers- and sisters-in-law, and anyone (other than domestic employees) who shares the person's home; provided, that any such persons who no longer have any such relationship as a result of legal separation or divorce, or death or incapacitation, shall not be considered immediate family members.

2. No director shall be independent if he/she does not meet the independent standards adopted from time to time by the NYSE. Specifically, a director *not* be "independent" if:

the director is or was within the last three years an employee of the Company, or an immediate family member of such director if he/she was within the last three years an executive officer of the Company; or

the director or an immediate family member of the director receives or received more than \$120,000 in direct compensation from the Company in any twelve-month period with the last three years, other than director and committee fees, and pension or other form of deferred compensation for prior service (provided such compensation is not contingent on continued service); provided, however, compensation received by an immediate family member of a director for service as an employee (other than an executive officer) of the Company need not be considered in determining independence; or

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(A) The director or an immediate family member is a current partner of a firm that is the Company's internal or external auditor; (B) the director is a current employee of such firm; (C) the director has an immediate family member who is a current employee of such firm and who personally works on the Company's audit; or (D) the director or an immediate family member was, within the last three years (but is no longer), a partner or employee of such firm and personally worked on the Company's audit during that time.

the director or an immediate family member of the director is or was within the last three years an executive officer of another company on whose compensation committee any of the Company's present executive officers serves or served; or

the director is a current employee, or an immediate family member is a current executive officer of the company that has made payments to, or received payments from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million or 2% of the other company's consolidated gross revenues (payments to and payments from compared against the benchmarks separately).

3. In determining director independence, the Board will give consideration to all known relevant facts and circumstances.

4. Notwithstanding the foregoing, if a director or his/her immediate family member has another significant relationship with the Company that is not described in Section 2, or, at any time, is the subject of a written request by any director to the Chairman of the Nominating and Governance Committee requesting a review of another director's independent status and stating the reasons therefor, then the Board of Directors will determine whether that director's relationship is a "material relationship" that would impair the director's ability to exercise independent judgment as a member of the Board.

5. Members of the Audit Committee must satisfy the enhanced "independence" criteria under applicable rules of the Securities and Exchange Commission and the New York Stock Exchange from time to time. In particular, the following enhanced "independence" qualifying criteria shall apply with respect to directors selected for service on the Audit Committee:

Director may not have accepted any direct or indirect consulting, advisory or other compensatory fee from the Company other than amounts received as compensation for membership on the Board or Board committees, pension or other forms of deferred compensation for prior service.

Director may not be an "affiliated person," i.e., a person who directly or indirectly controls, is controlled by or is under common control with, the Company (typically, one who is an executive officer or who owns more than 10% of the Company's securities is considered an "affiliated person").

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**APPENDIX B AAR CORP. SECTION 162(m) ANNUAL CASH INCENTIVE PLAN**

**I. PURPOSE**

1.1

The purpose of the AAR CORP. Section 162(m) Cash Incentive Plan (the "Plan") is to advance the interests of AAR CORP. (the "Company") and its stockholders by providing certain of its key executives with annual incentive compensation under the Company's Short-Term Incentive Plan that is tied to the achievement of a pre-established performance goal. The Plan is intended to ensure that payments pursuant to the Plan and the Company's Short-Term Incentive Plan qualify as "performance-based" compensation under Section 162(m) of the Internal Revenue Code.

**II. DEFINITIONS**

As used in this Plan, the terms below shall have the following meanings:

2.1

"*Award*" means an award described in Article IV of the Plan.

2.2

"*Board*" means the Board of Directors of the Company.

2.3

"*Code*" means the Internal Revenue Code of 1986, as amended.

2.4

"*Committee*" means the Compensation Committee of the Board or such other committee appointed by the Board to administer the Plan that is composed of not less than two directors of the Company, each of whom shall qualify in all respects as an "outside director" within the meaning of Section 162(m) of the Internal Revenue Code.

2.5

"*Company*" means AAR CORP., a Delaware corporation.

2.6

"*Covered Employee*" means an employee of the Company or an affiliate of the Company who is a "covered employee," as defined in Section 162(m) of the Internal Revenue Code, and any other key employee of the Company or an affiliate of the Company as the Committee may determine.

2.7

"*Net Income*" means the amount of net income reported on the Company's Consolidated Statement of Operation for a Plan Year.

2.8

"*Participant*" means, with respect to any Plan Year, a Covered Employee who has been designated by the Committee as eligible to participate in the Plan for such Plan Year.

2.9

"*Plan*" means this Section 162(m) Annual Cash Incentive Plan.

2.10

"*Plan Year*" means the Company's fiscal year.

**III. ADMINISTRATION**

3.1

The Plan shall be administered by the Committee. Except as limited by law or by the Certificate of Incorporation or By-Laws of the Company, and subject to the provisions hereof, the Committee shall have full power in its discretion to select Participants, determine the sizes and types of Awards, determine the terms and conditions of the Awards in a manner consistent with the Plan, construe and interpret the Plan and any Award, document, or instrument issued under the Plan, establish, amend, or waive rules and regulations for the Plan's administration, and amend the terms and conditions of any outstanding Award. Further, the Committee shall make all other determinations that may be necessary or advisable for the administration of the Plan. All determinations and decisions



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made by the Committee pursuant to the provisions of the Plan shall be final, conclusive, and binding on all persons.

**IV. AWARDS**

4.1 *Award Opportunity.* An Award represents the cash annual incentive that can be paid to a Participant with respect to the applicable Plan Year. The maximum Award opportunity for each Participant for each Plan Year shall be as follows:

<b>Position</b>	<b>Award Opportunity</b>
Chairman and Chief Executive Officer	5% of Net Income
President and Chief Operating Officer	3% of Net Income
Any other Participant	2% of Net Income

If a Participant's position changes during a Plan Year, the Participant's Award opportunity will be based on the position held on the last day of the Plan Year, and if a Participant holds two different positions concurrently at the end of a Plan Year, the Participant's Award opportunity will be based on the position that provides the higher Award opportunity. All Awards under the Plan shall be granted upon terms approved by the Committee.

4.2 *Committee Certification.* As soon as reasonably practicable after the end of each Plan Year to which an Award relates, the Committee shall certify, in writing, the amount of payment to be made to each Participant with respect to his or her Award. The Committee may in its discretion authorize payment to a Participant of less than the maximum Award opportunity and may provide that a Participant will not receive any payment with respect to an Award. In exercising its discretion, the Committee may consider such factors as it deems appropriate. In no event may the Committee authorize payment at more than the maximum Award opportunity set forth in Section 4.1.

4.3 *Payment of Awards.* Payment of Awards shall be made in cash at such times and on such terms as are determined by the Committee in its sole and absolute discretion, but in no event later than two and one-half months following the end of the Plan Year to which the Award relates.

4.4 *Deferrals.* The Committee may permit a Participant to defer the receipt of his or her Award payment in accordance with the provisions of the Company's Supplemental Key Employee Retirement Plan or successor plan thereto.

**V. TERM OF PROGRAM AMENDMENT OR TERMINATION OF PLAN**

5.1 *Term of Plan.* The Plan shall be effective for the Plan Year commencing June 1, 2010 and shall continue in effect until terminated as provided below; provided, however, that any Award granted to a Participant who is a "covered employee" as defined in Section 162(m) of the Code shall be contingent on stockholder approval of the Plan at the Company's 2010 Annual Meeting of Stockholders. If the Plan is not approved by stockholders at the Company's 2010 Annual Meeting of Stockholders, any Awards granted under the Plan to such covered employees shall be null and void and of no effect.

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5.2 *Amendment or Termination of Plan.* The Board may at any time suspend or terminate the Plan and may amend it from time to time in such respects as the Board may deem advisable, subject to any requirement for stockholder approval imposed by applicable law, including Section 162(m) of the Code; provided, however, that no amendment, suspension or termination of the Plan shall, without the consent of the person affected thereby, materially, adversely alter or impair any rights or obligations with respect to any Award payment previously certified by the Committee in accordance with Section 4.2 of the Plan.

**VI. GENERAL PROVISIONS**

6.1 *Withholding.* The Company shall have the right to withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy any applicable federal, state, local or foreign withholding tax requirements imposed with respect to the payment of an Award.

6.2 *No Right to Continued Employment or Participation.* The Plan shall not interfere with or limit in any way the right of the Company or any affiliate of the Company to terminate any Participant's employment at any time, and the Plan shall not confer upon any Participant the right to continue in the employ of the Company or any affiliate. No employee of the Company or any affiliate shall have the right to be selected to receive an Award or, having been so selected, to be selected to receive a future Award.

6.3 *Replacement of 162(m) Incentive Goal Program.* This Plan supersedes and replaces the portion of the AAR CORP. 162(m) Incentive Goal Program adopted in 2006 that pertains to the Company's annual cash bonus payments.

6.4 *Successors.* All obligations of the Company under the Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

6.5 *Severability.* If any provision of the Plan shall be held illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provisions had not been included.

6.6 *Governing Law.* The validity, interpretation and effect of the Plan, and the rights of all persons hereunder, shall be governed by and determined in accordance with the laws of the State of Delaware, other than the choice of law rules thereof.













