

ETHAN ALLEN INTERIORS INC  
Form 10-K  
August 16, 2012

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 1-11692

Ethan Allen Interiors Inc.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

06-1275288  
(I.R.S. Employer Identification No.)

Ethan Allen Drive, Danbury, CT  
(Address of principal executive offices)

06811  
(Zip Code)

Registrant's telephone number, including area code (203) 743-8000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, \$.01 par value	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act:

None  
(Title of Class)

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
 Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant

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was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  
[X] Yes [ ] No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). [X] Yes [ ] No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

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

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

The aggregate market value of the Registrant's common stock, par value \$.01 per share, held by non-affiliates (based upon the closing sale price on the New York Stock Exchange) on December 31, 2011, (the last day of the Registrant's most recently completed second fiscal quarter) was approximately \$684,035,515. As of July 31, 2012, there were 28,835,319 shares of the Registrant's common stock, par value \$.01 per share, outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE:** Certain information contained in the Registrant's definitive Proxy Statement for the 2012 Annual Meeting of stockholders, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, is incorporated by reference into Part III hereof.

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## PART I

### Item 1. Business

#### Background

Incorporated in Delaware in 1989, Ethan Allen Interiors Inc., through its wholly-owned subsidiary, Ethan Allen Global, Inc., and Ethan Allen Global, Inc.'s subsidiaries (collectively, "We," "Us," "Our," "Ethan Allen" or the "Company"), is a leading manufacturer and retailer of quality home furnishings and accessories, offering a full complement of home decorating and design solutions through one of the country's largest home furnishing retail networks. We refer to our Ethan Allen retail outlets as "design centers" instead of "stores" to better reflect these expanded capabilities. We have made, and continue to make, considerable investment in our business in order to expand and improve our interior design capabilities and to leverage our Company operated manufacturing and logistics operations. The Company was founded in 1932 and has sold products under the Ethan Allen brand name since 1937.

#### Mission Statement

Our primary business objective is to provide our customers with a convenient, full-service, one-stop shopping solution for their home decorating needs by offering stylish, high-quality products at good value. In order to meet our stated objective, we have developed and adhere to a focused and comprehensive business strategy. The elements of this strategy, each of which is integral to our solutions-based philosophy, include (i) our vertically integrated operating structure, (ii) our stylish products and related marketing initiatives, (iii) our retail design center network, (iv) our people, and (v) our focus on providing design solutions.

#### Operating Segments

Our products are sold through a dedicated global network of approximately 300 retail design centers. As of June 30, 2012, the Company operated 147 design centers (our retail segment) and our independent retailers operated 151 design centers (as compared to 147 and 139, respectively, at the end of the prior fiscal year). Our wholesale segment net sales include sales to our retail segment and sales to our independent retailers. Our retail segment net sales accounted for 77% of our consolidated net sales in fiscal 2012. Our wholesale segment net sales to independent retailers accounted for 23%, including approximately 11% of our net sales in fiscal 2012 to the ten largest independent retailers, who operate 93 design centers. Our independent retailer in China operated 70 of these locations at the end of fiscal 2012.

Our wholesale and retail operating segments represent strategic business areas of our vertically integrated business that operate separately and provide their own distinctive services (further outlined below). This enables us to more effectively offer our complete line of home furnishings and accessories and more efficiently control quality and cost. For certain financial information regarding our operating segments, see Note 16 to the Consolidated Financial Statements included under Item 8 of this Annual Report and incorporated herein by reference.

While the manner in which our home furnishings and accessories are marketed and sold is consistent between our wholesale and retail segments, the nature of the underlying recorded sales (i.e. wholesale versus retail) and the specific services that each operating segment provides (i.e. wholesale manufacturing, sourcing, and distribution versus retail selling) are different. Within the wholesale segment, we maintain revenue information according to each respective product line (i.e. case goods, upholstery, or home accessories and other). Sales of case good items include, but are not limited to, beds, dressers, armoires, tables, chairs, buffets, entertainment units, home office furniture, and wooden accents. Sales of upholstery home furnishing items include sleepers, recliners, chairs, sofas, loveseats, cut fabrics and

leather. Skilled craftsmen cut, sew and upholster custom-designed upholstery items which are available in a variety of frame and fabric options. Home accessory and other items include window treatments, wall decor, lighting, clocks, bedding and bedspreads, decorative accessories, area rugs, and home and garden furnishings. The allocation of retail sales by product line follows that of the wholesale segment (see table of wholesale net sales allocated by product line in the Wholesale Segment Overview below).

We evaluate performance of the respective segments based upon revenues and operating income. Inter-segment eliminations result, primarily, from the wholesale sale of inventory to the retail segment, including the related profit margin.

#### Wholesale Segment Overview:

Wholesale net sales for each of the last three fiscal years are summarized below (in millions):

	Fiscal Year Ended June 30,		
	2012	2011	2010
Wholesale net sales	\$ 456.9	\$ 422.9	\$ 362.5

Wholesale net sales for each of the last three fiscal years, allocated by product line, were as follows:

	Fiscal Year Ended June 30,					
	2012		2011		2010	
Case Goods	38	%	39	%	40	%
Upholstered Products	44	%	46	%	46	%
Home Accessories and Other	18	%	15	%	14	%
	100	%	100	%	100	%

The wholesale segment, principally involved in the development of the Ethan Allen brand, encompasses all aspects of design, manufacture, sourcing, sale, and distribution of our broad range of home furnishings and accessories. Wholesale revenue is generated upon the wholesale sale and shipment of our products to our network of independently operated design centers and Company operated design centers (see Company operated retail comments below) through its national distribution center and one other smaller fulfillment center.

During the past year, independent retailers opened 20 new design centers, (two of which were relocations), closed three, and sold three to the Company. We continue to promote the growth and expansion of our independent retailers through ongoing support in the areas of market analysis, site selection, and business development. As in the past, our independent retailers are required to enter into license agreements with us, which (i) authorize the use of certain Ethan Allen trademarks and (ii) require adherence to certain standards of operation, including a requirement to fulfill related warranty service agreements. We are not subject to any territorial or exclusive retailer agreements in North America. The wholesale segment also develops and implements related marketing and brand awareness programs.

Wholesale profitability includes (i) the wholesale gross margin, which represents the difference between the wholesale net sales price and the cost associated with manufacturing and/or sourcing the related product, and (ii) other operating costs associated with wholesale segment activities.

Approximately 70% of the products sold by the Company are manufactured in its domestic plants. During fiscal 2012, the Company's domestic manufacturing footprint remained stable while we added capacity in two Company operated plants. We increased the manufacturing capacity of our upholstery manufacturing when 109,000 square feet of production space was added in Mexico, and of our case goods manufacturing with the purchase of a 162,000 square foot facility in Honduras. We operate four case good plants (two in Vermont including one sawmill, one in North Carolina, and one in Honduras), three upholstery plants (two on our Maiden, North Carolina campus, and one in Mexico) and one home accessory plant in New Jersey. We also source selected case goods, upholstery, and home accessory items from third-party suppliers domestically and abroad.



As of June 30, 2012, our wholesale backlog was \$49.5 million (as compared to \$62.8 million as of June 30, 2011) which is anticipated to be serviced in the first quarter of fiscal 2013. Our fiscal 2012 year ended on a weekend, which affected the timing of orders placed on our wholesale business impacting the year end backlog. This backlog fluctuates based on the timing of net orders booked, manufacturing schedules and efficiency, the timing of sourced product receipts, and the timing and volume of wholesale shipments. Because orders may be rescheduled and/or canceled and the sourcing timing may change, the measure of backlog at a point in time may not necessarily be indicative of future sales performance.

For the twelve months ended June 30, 2012, net orders booked at the wholesale level, which includes orders generated by independently operated and Company operated design centers, totaled \$442.3 million as compared to \$427.9 million for the twelve months ended June 30, 2011. In any given period, net orders booked may be impacted by the timing of floor sample orders received in connection with new product introductions. New product offerings may be made available to the retail network at any time during the year, including in connection with our periodic retailer conferences.

#### Retail Segment Overview:

Retail net sales for each of the last three fiscal years are summarized below (in millions):

	Fiscal Year Ended June 30,		
	2012	2011	2010
Retail net sales	\$ 559.4	\$ 505.9	\$ 438.5

The retail segment sells home furnishings and accessories to consumers through a network of Company operated design centers. During fiscal 2012, we opened four design centers (two of which were relocations), acquired three from independent retailers, and closed five design centers. The Company also offers access to its products to qualified independent interior designers. The interior design affiliate (“IDA”) program, initiated in fiscal 2010, provides the opportunity for Ethan Allen designers to work with independent interior design affiliates that apply and meet Ethan Allen standards. This program allows the Company to reach additional clients serving both Company operated and independent retail operations not otherwise affiliated with Ethan Allen and compensates them for the incremental business. Retail revenue is generated upon the retail sale and delivery of our products to our retail customers through our network of service centers. Retail profitability reflects (i) the retail gross margin, which represents the difference between the retail net sales price and the cost of goods purchased from the wholesale segment, and (ii) other operating costs associated with retail segment activities.

We pursue further expansion of the Company operated retail business by adding interior design professionals and expanding the IDA program, opening new design centers, relocating existing design centers and, when appropriate, acquiring design centers from independent retailers. The geographic distribution of retail design center locations is included under Item 2 of Part I of this Annual Report.

#### Products

Our strategy has been to position Ethan Allen as a preferred brand with superior style, quality and value while, at the same time, providing consumers with a comprehensive, one-stop shopping solution for their home furnishing and design needs. In carrying out our strategy, we continue to expand our reach to a broader consumer base through a diverse selection of attractively priced products, designed to complement one another, reflecting the popular trend toward eclectic home decorating. During the last three quarters of fiscal 2012, the Company introduced significantly more new products than normal, refreshing a broad range of its products. Regular product introductions, a broad range of styles and selections within our custom upholstery and case good lines, new finishes for, and redesigns of, previous



product introductions, and expanded product offerings to accommodate today's home decorating trends, continue to redefine Ethan Allen, positioning us as a leader in style. In an effort to more effectively position ourselves as a provider of interior design solutions, we offer a merchandising strategy which involves the grouping of our product offerings into five distinct product "lifestyles", each reflecting the diversity and eclecticism that we believe represents the best in American design. In accordance with this merchandising strategy, new products are designed and developed to reflect unique elements applicable to one or more of our Elegance; Modern; Romance; Explorer; or Vintage lifestyles.

All of our case goods, upholstered products, and home accessories are styled with distinct design characteristics. Home accessories play an important role in our marketing strategy as they enable us to offer the consumer the convenience of one-stop shopping by creating a comprehensive home furnishing solution. The interior of our design centers is organized to facilitate display of our product offerings, both in room settings that project the category lifestyle and by product grouping to facilitate comparisons of the styles and tastes of our clients. To further enhance the experience, technology is used to expand the range of products viewed by including content from our award-winning website and advanced large touch-screen flat panel displays.

We continuously monitor changes in home design trends through attendance at international industry events and fashion shows, internal market research, and regular communication with our retailers and design center design consultants who provide valuable input on consumer tendencies. We believe that the observations and input gathered enable us to incorporate appropriate style details into our products to react quickly to changing consumer tastes.

#### Product Sourcing Activities

We are one of the largest manufacturers of home furnishings in the United States, manufacturing and/or assembling approximately 70% of our products in our domestic manufacturing facilities. Our domestic facilities are located in the Northeast and Southeast regions of the United States where they are close to sources of raw materials and skilled craftsmen. Our upholstery manufacturing group also includes a plant in Mexico, and our case goods manufacturing includes a new plant in Honduras. The balance of our production is outsourced according to our own internally developed design specifications, through third-party suppliers, most of which are located outside the United States. These suppliers, primarily in Asia, have been carefully selected and generally have supplied us for many years. We believe that strategic investment in our manufacturing facilities, combined with an appropriate level of outsourcing through both foreign and domestic suppliers, will accommodate future sales growth and allow us to maintain an appropriate degree of control over cost, quality and service to our customers.

We also take pride in our “green” initiatives that include, in select product offerings, the use of responsibly harvested Appalachian woods, water based finishes, organic cotton textiles and recycled materials. This year we began implementing the Enhancing Furniture’s Environmental Culture (EFEC) program sponsored by the American Home Furnishing Alliance in all of our manufacturing facilities. This program requires participating companies to analyze and better understand the environmental impact of processes, raw materials and finished products on a facility-by-facility basis. The Company was honored to receive several environmental stewardship awards this year, including one from the U.S. Environmental Protection Agency.

#### Raw Materials and Other Suppliers

The most important raw materials we use in furniture manufacturing are lumber, veneers, plywood, hardware, glue, finishing materials, glass, mirrored glass, laminates, fabrics, foam, and filling material. The various types of wood used in our products include cherry, ash, oak, maple, prima vera, mahogany, birch and pine; substantially all of which are purchased domestically.

Fabrics and other raw materials are purchased both domestically and outside the United States. We have no significant long-term supply contracts, and have sufficient alternate sources of supply to prevent disruption in supplying our operations. We maintain a number of sources for our raw materials, which we believe contribute to our ability to obtain competitive pricing. Lumber prices fluctuate over time based on factors such as weather and demand, which, in turn, impact availability. Higher material prices could have an adverse effect on margins.

Appropriate amounts of lumber and fabric inventory are typically stocked to maintain adequate production levels. We believe that our sources of supply for these materials are sufficient and that we are not dependent on any one supplier.

We enter into standard purchase agreements with certain foreign and domestic suppliers to source selected case goods, upholstery, and home accessory items. The terms of these arrangements are customary for the industry and do not contain any long-term contractual obligations on our behalf. We believe we maintain good relationships with our suppliers.

#### Distribution and Logistics

We distribute our products through one primary distribution center, owned by the Company, strategically located in Virginia. This national distribution center is supported by a smaller Company owned order fulfillment center located in Oklahoma. Our primary distribution center provides efficient cross-dock operations to receive and ship product from our manufacturing facilities and third-party suppliers to our network of retail design centers and retail service centers. While we manufacture to custom order the majority of our products, we also stock selected case goods, upholstery and accessories to provide for quick delivery of in-stock items and to allow for more efficient production runs. In fiscal 2012 we introduced Ethan Allen Express, a program that markets a selection of attractively priced products that will be held in stock for faster delivery. Within our existing manufacturing sites, we have two large “supermarkets of parts” for the components used in our custom case goods manufacturing.

Wholesale shipments utilize our own fleet of trucks and trailers or are subcontracted with independent carriers. Approximately 89% of our fleet (trucks and trailers) is leased, with the remainder under operating and capital lease agreements with remaining terms ranging from one to six years.

Our policy is to sell our products at the same delivered cost to all Company and independently operated design centers nationwide, regardless of their shipping point. This policy creates pricing credibility with our wholesale customers while providing our retail network the opportunity to achieve more consistent margins by removing fluctuations attributable to the cost of shipping. Further, this policy eliminates the need for our independent retailers to carry significant amounts of inventory in their own warehouses. As a result, we obtain more accurate consumer product demand information.

Retail service centers are operated by the Company, independent retailers, and subcontractors, who prepare products for delivery into clients’ homes. There were 14 Company operated service centers at the end of fiscal 2012, down from 16 one year earlier.

#### Marketing Programs

Our marketing and advertising strategies are developed to drive traffic into our network of design centers and to EthanAllen.com. We believe these strategies give Ethan Allen a strong competitive advantage in the home furnishings industry. We create and coordinate print, digital and television campaigns nationally, as well as assist in international and local marketing and promotional efforts. The Company’s network of approximately 300 retail design centers and approximately 3,400 independent members of the Interior Design Affiliate program benefit from these marketing efforts, and we believe these efforts position us to consistently fulfill our brand promise.



Our team of advertising specialists sends consistent, clear messages that Ethan Allen is a leader in style and service, with everything for the well designed home. We use several forms of media to accomplish this, including television (national and local), direct mail, newspapers, regional shelter magazines, social media, email, online sponsorships and ads. These messages are also conveyed on our website at EthanAllen.com. A strong national email marketing campaign delivers emails and design and product brochures to a growing database of clients.

Our national television and print advertising campaigns are designed to leverage our strong brand equity, finding creative and compelling ways to remind consumers of our tremendous range of products, services, special programs, and custom options. We believe that we consistently deliver the most cohesive national advertising campaign in the home furnishings industry. Coordinated local television, print, social media and online ads serve to support our national programs.

The Ethan Allen direct mail magazine, which brands our five Signature Lifestyles, promotes our newly launched Ethan Allen Express program, and communicates the breadth of our products and services, is one of our most important marketing tools. We publish these magazines and sell them to Company and independently operated design centers who use demographic information collected through independent market research to target potential clients. Given the importance of this advertising medium, direct mail marketing lists are continually refined to target those consumers who are most likely to purchase, and improve the return on direct mail expenditures. Approximately 16 million copies of our direct mail magazine were distributed to consumers during fiscal 2012.

Our television advertising and direct mail efforts are supported by strong print campaigns. We also update our Style Book/Product Guide approximately every six months. The Style Book is a celebration of Ethan Allen's rich history, while the Product Guide is a catalog of our case goods and upholstery products. Throughout the Style Book, we tell the stories of some inspiring associates, provide inspirational photos, and detail the attributes that have become Ethan Allen hallmarks over the years; fine craftsmanship, exceptional quality, and remarkable functionality. These publications are comprehensive and effective resources for our clients.

EthanAllen.com provides our clients and our associates with the tools they need to shop and design. The website features a series of helpful tabs with videos, feature stories, design and style solutions, and fresh, new looks. Those looking to shop our site can do so by lifestyle, by product, or by room in an easy-to-navigate format. The site's "My Projects" tool lets visitors create idea boards and room plans, and even gives them the option of consulting with a design professional from their local Ethan Allen design center. Visitors to EthanAllen.com will also find all our latest news and promotional information. Nearly all of Ethan Allen's products are available for purchase online.

To enhance the client experience at Ethan Allen retail locations, our Design Centers now have interactive touchscreens. Users can take our Style Quiz, browse our full product catalog, check out hundreds of fully designed rooms, print product descriptions, learn about promotions, and much more.

Our facebook page ([facebook.com/EthanAllenDesign](https://www.facebook.com/EthanAllenDesign)) and Pinterest boards ([pinterest.com/EthanAllen](https://www.pinterest.com/EthanAllen)) are updated regularly and offer fans and followers inspirational images, trend information, and design ideas, as well as tips for how to bring distinctive Ethan Allen style to their homes.

We also have a robust and informative extranet available to our retailers and design professionals. It is the primary source of communication in and among members of our retail network. It provides information about every aspect of the retail business at Ethan Allen, including advertising materials, prototype floor plan displays, and extensive product details.

In an effort to expand its demographic reach, the Company launched Ethan Allen Express in June 2012. This program provides faster delivery of select products held in stock that are marketed with a message of being attractively priced

and available both as individual pieces and attainable as complete rooms professionally arranged with the help of our qualified design teams.

## Retail Design Center Network

Ethan Allen design centers are typically located in busy urban settings as freestanding destinations or as part of suburban strip malls, depending upon the real estate opportunities in a particular market. Our design centers average approximately 16,000 square feet in size but range from approximately 3,000 square feet to 35,000 square feet.

We maximize uniformity of presentation throughout the retail design center network through a comprehensive set of standards and display planning assistance. These standard interior design formats assist each design center in presenting a high quality image by using focused lifestyle settings and select product category groupings to display our products and information to facilitate design solutions and to educate consumers. We also create a uniform design center image with consistent exterior facades in addition to the interior layouts. The adherence to all of these standards have helped position Ethan Allen as a leader in home furnishings retailing.

We have strengthened the retail network with many initiatives, including the opening of new and relocated design centers in desirable locations, introduction of Lifestyle presentations and floor plans, strengthening of the professionalism of our designers through training and certification, and the consolidation of certain design centers and service centers. This continuous improvement resulted in fiscal 2012 with four new Company operated design centers (two of which were relocations), and 20 new independently operated design centers (two of which were relocations). Five Company operated and three independently operated design centers in underperforming markets were closed or consolidated into existing design centers.

## People

At June 30, 2012, the Company had approximately 5,000 employees (“associates”), approximately one percent of whom are represented by unions whose collective bargaining agreements expire within the next two years. We expect no significant changes in our relations with the unions and believe we maintain good relationships with our employees.

The retail network, which includes both Company and independently operated design centers, is staffed with a sales force of design consultants and service professionals who provide customers with effective home decorating solutions at no additional charge. Our interior design associates receive specialty training with respect to the distinctive design and quality features inherent in each of our products and programs. This enables them to more effectively communicate the elements of style and value that serve to differentiate us from our competition. As such, we believe our design consultants, and the complimentary service they provide, create a distinct competitive advantage over other home furnishing retailers. We continue to strengthen the level of service, professionalism, interior design competence, efficiency, and effectiveness of retail design center associates.

The Company’s interior design affiliate program was launched in fiscal 2010. We currently have approximately 3,400 qualified professional interior design affiliates who add strength and breadth to our interior design reach. We believe that this program augments the Company and independent retailer design staffs to reach more clients and improve market penetration. This structure, along with the emphasis in our messaging to clients that “we can help as little or as much as you like”<sup>R</sup>, continues to improve the customer service experience.