

FLEXSTEEL INDUSTRIES INC  
Form 10-K  
August 22, 2012

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**Form 10-K**

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 **0-5151**

**FLEXSTEEL INDUSTRIES, INC.**  
(Exact name of registrant as specified in its charter)

**Minnesota**  
(State or other jurisdiction of incorporation or  
organization)  
**385 Bell Street, Dubuque, Iowa**  
(Address of principal executive offices)  
Registrant's telephone number, including area code:

**42-0442319**  
(I.R.S. Employer Identification No.)  
**52001**  
(Zip Code)  
**(563) 556-7730**

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

Title of each class	Name of each exchange on which registered
Common Stock, \$1.00 Par Value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:  
None  
(Title of Class)

Indicate by check mark whether 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 was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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

Edgar Filing: FLEXSTEEL INDUSTRIES INC - Form 10-K

10-K or any amendment to this Form 10-K.  x

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 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  Non-accelerated filer  Smaller reporting company  x

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

The aggregate market value of the voting stock held by non-affiliates, computed by reference to the last sales price on December 31, 2011 (which was the last business day of the registrant's most recently completed second quarter) was \$58,373,120.

Indicate the number of shares outstanding of each of the registrant's classes of Common Stock, as of the latest practicable date. 6,921,284 Common Shares (\$1 par value) as of August 17, 2012.

**DOCUMENTS INCORPORATED BY REFERENCE**

In Part III, portions of the registrant's 2012 Proxy Statement to be filed with the Securities and Exchange Commission within 120 days of the Registrant's fiscal year end.

**PART I****Cautionary Statement Relevant to Forward-Looking Information for the Purpose of Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995**

The Company and its representatives may from time to time make written or oral forward-looking statements with respect to long-term goals or anticipated results of the Company, including statements contained in the Company's filings with the Securities and Exchange Commission and in its reports to stockholders.

Statements, including those in this Annual Report on Form 10-K, which are not historical or current facts, are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. There are certain important factors that could cause our results to differ materially from those anticipated by some of the statements made herein. Investors are cautioned that all forward-looking statements involve risk and uncertainty. Some of the factors that could affect results are the cyclical nature of the furniture industry, supply chain disruptions, litigation, including expenses relating to the Indiana civil litigation, the effectiveness of new product introductions and distribution channels, the product mix of sales, pricing pressures, the cost of raw materials and fuel, retention and recruitment of key employees, actions by governments including laws, regulations, taxes and tariffs, inflation, the amount of sales generated and the profit margins thereon, competition (both U.S. and foreign), credit exposure with customers, participation in multi-employer pension plans and general economic conditions. For further information regarding these risks and uncertainties, see the Risk Factors section in Item 1A of this Annual Report on Form 10-K.

The Company specifically declines to undertake any obligation to publicly revise any forward-looking statements that have been made to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

**Item 1. Business****General**

Flexsteel Industries, Inc. and Subsidiaries (the Company) was incorporated in 1929 and is one of the oldest and largest manufacturers, importers and marketers of residential and commercial upholstered and wooden furniture products in the United States. Product offerings include a wide variety of upholstered and wood furniture such as sofas, loveseats, chairs, reclining and rocker-reclining chairs, swivel rockers, sofa beds, convertible bedding units, occasional tables, desks, dining tables and chairs and bedroom furniture. The Company's products are intended for use in home, office, hotel and other commercial applications. Featured as a basic component in most of the upholstered furniture is a unique steel drop-in seat spring from which our name Flexsteel is derived. The Company distributes its products throughout the United States through the Company's sales force and various independent representatives. The Company's products are also sold to several national and regional chains, some of which sell on a private label basis. No single customer accounted for more than 10% of net sales.

The Company has one active wholly-owned subsidiary: DMI Furniture, Inc. (DMI), which is a Louisville, Kentucky-based, importer and marketer of residential and commercial office furniture with warehouses in Indiana and manufacturing sources in Asia; DMI's divisions are WYNWOOD, Homestyles and DMI Commercial Office Furniture.

The Company operates in one reportable segment, furniture products. Our furniture products business involves the distribution of manufactured and imported products consisting of a broad line of upholstered and wooden furniture for residential and commercial markets. Set forth below is information for the past three fiscal years showing the Company's net sales attributable to each of the areas of application:

(in thousands)	FOR THE YEARS ENDED JUNE 30,		
	2012	2011	2010
Residential	\$ 275,442	\$ 258,095	\$ 246,041
Commercial	76,647	81,331	80,425
	\$ 352,089	\$ 339,426	\$ 326,466

## Edgar Filing: FLEXSTEEL INDUSTRIES INC - Form 10-K

### *Manufacturing and Offshore Sourcing*

We integrate our manufactured products with finished products acquired from offshore suppliers who can meet our quality specification and scheduling requirements. We will continue to pursue and refine this blended strategy, offering customers manufactured goods, products manufactured utilizing imported component parts, and ready-to-deliver imported products. The Company believes that it best serves customers by offering products from each of these categories to assist customers in reaching specific consumers with varied price points, styles and product categories. This blended focus on products allows the Company to provide a wide range of options to satisfy customer requirements.

We operate manufacturing facilities that are located in Arkansas, California, Georgia, Iowa, Mississippi and Juarez, Mexico. These manufacturing operations are integral to our product offerings and distribution strategy by offering smaller and more frequent product runs of a wider product selection. We identify and eliminate manufacturing inefficiencies and adjust manufacturing schedules on a daily basis to meet customer requirements. We have established relationships with key suppliers to ensure prompt delivery of quality component parts. Our production includes the use of selected offshore component parts to enhance our product quality and value in the marketplace.

### *Competition*

The furniture industry is highly competitive and includes a large number of U.S. and foreign manufacturers and distributors, none of which dominates the market. The markets in which we compete include a large number of relatively small manufacturers; however, certain competitors have substantially greater sales volumes than we have. Our products compete based on style, quality, price, delivery, service and durability. We believe that our manufacturing capabilities, facility locations, commitment to customers, product quality and value and experienced production, marketing and management teams, aided by offshore sourced components and finished product, are our competitive advantages.

### *Seasonality*

The Company's business is not considered seasonal.

### *Foreign Operations*

The Company makes minimal export sales. At June 30, 2012, the Company had approximately 90 employees located in Asia to inspect and coordinate the delivery of purchased products.

### *Customer Backlog*

The approximate backlog of customer orders believed to be firm as of the end of the current fiscal year and the prior two fiscal years were as follows (in thousands):

<b>June 30, 2012</b>	<b>June 30, 2011</b>	<b>June 30, 2010</b>
\$38,700	\$35,700	\$49,000

### *Raw Materials*

The Company utilizes various types of wood, fabrics, leathers, upholstered filling material, high carbon spring steel, bar and wire stock, polyurethane and other raw materials in manufacturing furniture. While the Company purchases these materials from numerous outside suppliers, both U.S. and foreign, it is not dependent upon any single source of supply. The costs of certain raw materials fluctuate, but all continue to be readily available.

### *Working Capital Practices*

For a discussion of the Company's working capital practices, see *Liquidity and Capital Resources* in Item 7 of this Annual Report on Form 10-K.

### *Industry Factors*

The Company has exposure to actions by governments, including tariffs, see *Risk Factors* in Item 1A of this Annual Report on Form 10-K.

### *Government Regulations*

The Company is subject to various local, state, and federal laws, regulations and agencies that affect businesses generally, see *Risk Factors* in Item 1A of this Annual Report on Form 10-K.

## Edgar Filing: FLEXSTEEL INDUSTRIES INC - Form 10-K

### *Environmental Matters*

The Company is subject to environmental laws and regulations with respect to product content and industrial waste, see **Risk Factors** in Item 1A and **Legal Proceedings** in Item 3 of this Annual Report on Form 10-K.

### *Trademarks and Patents*

The Company owns the American and Canadian improvement patents to its Flexsteel seat spring, as well as patents on convertible beds. The Company has patents and owns certain trademarks in connection with its furniture products, which are due to expire on dates ranging from 2013 to 2025. The Company does not consider its trademarks and patents material to its business.

It is not common in the furniture industry to obtain a patent for a furniture design. If a particular design of a furniture manufacturer is well accepted in the marketplace, it is common for other manufacturers to imitate the same design without recourse by the furniture manufacturer who initially introduced the design. Furniture products are designed by the Company's own design staff and through the services of independent designers. New models and designs of furniture, as well as new fabrics, are introduced continuously. In the last three fiscal years, these design activities involved the following expenditures (in thousands):

<b>Fiscal Year Ended June 30,</b>	<b>Expenditures</b>
2012	\$2,310
2011	\$2,190
2010	\$2,040

### *Employees*

The Company had 1,300 employees as of June 30, 2012, including 250 employees that are covered by collective bargaining agreements. Management believes it has good relations with employees.

### *Website and Available Information*

Our website is located at [www.flexsteel.com](http://www.flexsteel.com). Information on the website does not constitute part of this Annual Report on Form 10-K.

A copy of the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission (SEC), other SEC reports filed or furnished and our *Guidelines for Business Conduct* are available, without charge, on the Company's website at [www.flexsteel.com](http://www.flexsteel.com) or by writing to the Office of the Secretary, Flexsteel Industries, Inc., P. O. Box 877, Dubuque, IA 52004-0877.

Effective June 30, 2012, Ronald J. Klosterman retired as President and CEO of Flexsteel. Mr. Klosterman, had been with Flexsteel for nearly 40 years, and had been President and CEO since 2006. Effective July 1, 2012, Karel K. Czanderna became the Company's President and Chief Executive Officer.

The executive officers of the Company, their ages, positions (in each case as of August 14, 2012), and the year they were first elected or appointed an officer of the registrant, are as follows:

<b>Name (age)</b>	<b>Position (date first became officer)</b>
Karel K. Czanderna (56)	President & Chief Executive Officer (2012)
James R. Richardson (68)	Senior Vice President of Residential Sales and Marketing (1979)
Thomas D. Burkart (69)	Senior Vice President of Vehicle Seating (1984)
Patrick M. Crahan (64)	Senior Vice President of Commercial Seating (1989)
Jeffrey T. Bertsch (57)	Senior Vice President of Corporate Services (1989)
Donald D. Dreher (62)	Senior Vice President (2004), President & CEO of DMI Furniture, Inc. (1986)
James E. Gilbertson (63)	Senior Vice President of Vehicle Seating (1989)
Timothy E. Hall (54)	Senior Vice President-Finance, Chief Financial Officer, Secretary & Treasurer (2000)

## **Item 1A. Risk Factors**

Our business is subject to a variety of risks. You should carefully consider the risk factors detailed below in conjunction with the other information contained in this Annual Report on Form 10-K. Should any of these risks actually materialize, our business, financial condition, and future prospects could be negatively impacted. These risks are not the only ones we face. There may be additional factors that are presently unknown to us or that we currently believe to be immaterial that could affect our business.

**Our products are considered highly deferrable purchases for consumers during economic downturns. Prolonged negative economic conditions could impact our business.**

Home furnishings and commercial products are generally considered a deferrable purchase by most consumers and end-users. Economic downturns and prolonged negative economic conditions could affect consumer spending habits by decreasing the overall demand for home furnishings and commercial products. These events could impact retailers, hospitality, recreational vehicle seating and healthcare businesses resulting in an impact on our business. A recovery in our sales could lag significantly behind a general economic recovery due to the deferrable nature and relatively significant cost of home furnishings and commercial products purchases.

**Our future success depends on our ability to manage our global supply chain.**

We acquire raw materials, component parts and certain finished products from external suppliers, both U.S. and foreign. Many of these suppliers are dependent upon other suppliers in countries other than where they are located. This global interdependence within our supply chain is subject to delays in delivery, availability, quality and pricing (including tariffs) of products. The delivery of goods from these suppliers may be delayed by customs, labor issues, changes in political, economic and social conditions, laws and regulations. Unfavorable fluctuations in price, quality, delivery and availability of these products could negatively affect our ability to meet demands of our customers and have a negative impact on product margin.

**Competition from U.S. and foreign finished product manufacturers may adversely affect our business, operating results or financial condition.**

The furniture industry is very competitive and fragmented. We compete with U.S. and foreign manufacturers and distributors. As a result, we may not be able to maintain or raise the prices of our products in response to competitive pressures or increasing costs. Also, due to the large number of competitors and their wide range of product offerings, we may not be able to significantly differentiate our products (through styling, finish and other construction techniques) from those of our competitors. Our current and potential customers have the ability to obtain products direct from the manufacturers. As a result, we are continually subject to the risk of losing market share, which may lower our sales and earnings.

**Business failures of large dealers or a group of customers could impact our future sales and earnings.**

Our business practice has been to extend payment terms to our customers. As a result, we have a large amount of trade receivables. Although we have no customers that individually represent 10% or more of our annual net sales, business failures of a large customer or a group of customers could require us to record additional receivable reserves, which would decrease earnings. Receivables collection can be significantly impacted by economic conditions. Deterioration of the economy or a lack of economic recovery could cause further business failures of our customers, which could in turn require additional receivable reserves and lower our earnings.

**Our failure to anticipate or respond to changes in consumer tastes and fashions in a timely manner could adversely affect our business and decrease our sales and earnings.**

Furniture is a styled product and is subject to rapidly changing consumer and end-user trends and tastes and is highly fashion oriented, and if we are not able to acquire sufficient fabric variety, or if we are unable to predict or respond to changes in fashion trends, we may lose sales and have to sell excess inventory at reduced prices.

**Our success depends on our ability to recruit and retain key employees.**

Our success depends on our ability to recruit and retain key employees. If we are not successful in recruiting and retaining key employees or experience the unexpected loss of key employees, our operations may be negatively impacted.

**Future costs of complying with various laws and regulations may adversely impact future operating results.**

Our business is subject to various laws and regulations which could have a significant impact on our operations and the cost to comply with such laws and regulations could adversely impact our financial position, results of operations and cash flows. In addition, failure to comply with such laws and regulations, even inadvertently, could produce negative consequences which could adversely impact our operations.

**Terms of collective bargaining agreements and labor disruptions could adversely impact our results of operations.**

We employ approximately 1,300 people, 250 of whom are covered by collective bargaining agreements. Terms of collective bargaining agreements that prevent us from competing effectively could adversely affect our financial condition, results of operations and cash flows. We are committed to working with those groups to resolve conflicts as they arise. However, there can be no assurance that these efforts will be successful.



**Due to our participation in multi-employer pension plans, we may have exposures under those plans that could extend beyond what our obligations would be with respect to our employees.**

We participate in, and make periodic contributions to, three multi-employer pension plans that cover 200 of our union employees. Multi-employer pension plans are managed by trustee boards comprised of participating employer and labor union representatives, and the employers participating in a multi-employer pension plan are jointly responsible for maintaining the plan's funding requirements. Based on the most recent information available to us, we believe that the present value of actuarially accrued liabilities in the multi-employer pension plans substantially exceeds the value of the assets held in trust to pay benefits. As a result of our participation, we could experience greater volatility in our overall pension funding obligations. Our obligations may be impacted by the funded status of the plans, the plans' investment performance, changes in the participant demographics, financial stability of contributing employers and changes in actuarial assumptions.

**Our future results may be affected by various legal proceedings and compliance risk, including those involving product liability, environmental, or other matters.**

We face the business risk of exposure to product liability claims in the event that the use of any of our products results in personal injury or property damage. In the event any of our products prove to be defective, we may be required to recall or redesign such products. We are also subject to various laws and regulations relating to environmental protection and the discharge of materials into the environment. We could incur substantial costs, including legal expenses, as a result of the noncompliance with, or liability for cleanup or other costs or damages under, environmental laws. See Note 11, "Litigation" within the Notes to Consolidated Financial Statements for a description of an existing environmental claim against the Company. Additionally, the Company is involved in various other kinds of commercial disputes. Given the inherent uncertainty of litigation, these various legal proceedings and compliance matters could have a material impact on our business, operating results or financial condition.

## Item 1B. Unresolved Staff Comments

None.

## Item 2. Properties

The Company owns the following facilities as of June 30, 2012:

Location	Approximate Size (square feet)	Principal Operations
Dubuque, Iowa	719,000	Manufacturing and Distribution
Dubuque, Iowa	40,000	Corporate Office (under construction)
Lancaster, Pennsylvania	216,000	Distribution
Riverside, California	236,000	Manufacturing and Distribution
Riverside, California	69,000	Distribution
Dublin, Georgia	300,000	Manufacturing
Harrison, Arkansas	221,000	Manufacturing
Starkville, Mississippi	349,000	Manufacturing
New Paris, Indiana	168,000	Held for sale
Huntingburg, Indiana	691,000	Distribution

The Company leases the following facilities as of June 30, 2012:

Location	Approximate Size (square feet)	Principal Operations
Louisville, Kentucky	15,000	Administrative Offices
Ferdinand, Indiana	101,000	Distribution
Juarez, Mexico	225,000	Manufacturing

The Company's operating plants are well suited for their manufacturing purposes and have been updated and expanded from time to time as conditions warrant. Management believes there is adequate production and distribution capacity at the Company's facilities to meet present market demands.

The Company leases showrooms for displaying its products in the furniture markets in High Point, North Carolina and Las Vegas, Nevada.





**Item 3. Legal Proceedings**

*Indiana Civil Litigation.* The Company has been named as one of several defendants in a lawsuit related to groundwater contamination. The lawsuit alleges that the contamination source is a property once owned by the Company. The Company does not believe that it caused or contributed to the contamination. Plaintiffs have not identified a dollar amount of their alleged damages and the status of insurance coverage has not been determined. We are unable to estimate a range of reasonably possible outcomes or losses at this time. Accordingly, no accrual related to this matter has been recorded in the June 30, 2012 financial statements. Legal and other related expenses of \$2.4 million and \$0.5 million have been incurred responding to this lawsuit for the fiscal years 2012 and 2011, respectively, and are included in Selling, General and Administrative expense in the Consolidated Statements of Income.

*Other Proceedings.* From time to time, the Company is subject to various other legal proceedings, including lawsuits, which arise out of, and are incidental to, the conduct of the Company's business. The Company does not consider any of such other proceedings that are currently pending, individually or in the aggregate, to be material to its business or likely to result in a material effect on its consolidated operating results, financial condition, or cash flows.

**Item 4. Mine Safety Disclosures**

None.

**PART II****Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

## Share Investment Performance

The following graph is based upon the SIC Code #251 Household Furniture Index as a peer group. It shows changes over the past five-year period in the value of \$100 invested in: (1) Flexsteel's common stock; (2) The NASDAQ Global Market; and (3) an industry peer group of the following: Bassett Furniture Ind., Chromcraft Revington Inc., Ethan Allen Interiors, Furniture Brands Intl., Hooker Furniture Corp., Kimball International, La-Z-Boy Inc., Natuzzi S.P.A., and Stanley Furniture Inc.

Five-Year Cumulative Total Returns  
Value of \$100 Invested on June 30, 2007

	2007	2008	2009	2010	2011	2012
Flexsteel	100.00	80.85	63.17	84.51	114.51	159.16
Peer Group	100.00	71.96	35.89	45.40	56.01	56.10
NASDAQ	100.00	76.08	57.88	65.14	85.82	83.18

The NASDAQ Global Market is the principal market on which the Company's common stock is traded.

	Sale Price of Common Stock *				Cash Dividends	
	Fiscal 2012		Fiscal 2011		Per Share	
	High	Low	High	Low	Fiscal 2012	Fiscal 2011
First Quarter	\$ 15.91	\$ 13.04	\$ 15.84	\$ 10.08	\$ 0.10	\$ 0.075
Second Quarter	15.00	13.26	18.75	14.22	0.10	0.075
Third Quarter	18.39	13.82	19.69	14.11	0.10	0.075
Fourth Quarter	22.00	18.28	16.60	13.80	0.15	0.075

\* Reflects the market price as reported on The NASDAQ Global Market.

The Company estimates there were approximately 1,600 holders of common stock of the Company as of June 30, 2012.

There were no repurchases of the Company's common stock during the quarter ended June 30, 2012.

The payment of future cash dividends is within the discretion of our Board of Directors and will depend, among other factors, on our earnings, capital requirements and operating and financial condition.

**Item 6. Selected Financial Data**

The selected financial data presented below should be read in conjunction with the Company's consolidated financial statements and notes thereto included in Item 8 of this Annual Report on Form 10-K and with Management's Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 of this Annual Report on Form 10-K. The selected consolidated statements of income data of the Company is derived from the Company's consolidated financial statements.

**Five-Year Review**

(Amounts in thousands, except certain ratios and per share data)

	2012	2011	2010	2009	2008
<b>SUMMARY OF OPERATIONS</b>					
Net sales	\$ 352,089	\$ 339,426	\$ 326,466	\$ 324,158	\$ 405,655
Cost of goods sold	266,810	262,124	251,685	263,083	327,165
Operating income (loss)	20,246	15,864	17,529	(2,272)	7,596
Interest and other income	422	343	361	661	469
Interest expense			439	968	1,469
Income (loss) before income taxes	20,668	16,207	17,451	(2,579)	6,596
Income tax provision (benefit)	7,600	5,790	6,650	(1,070)	2,360
Net income (loss) (1) (2)	13,068	10,417	10,801	(1,509)	4,236
Earnings (loss) per common share: (1) (2)					
Basic	1.93	1.56	1.63	(0.23)	0.64
Diluted	1.86	1.50	1.61	(0.23)	0.64
Cash dividends declared per common share	\$ 0.45	\$ 0.30	\$ 0.20	\$ 0.36	\$ 0.52
<b>SELECTED DATA AS OF JUNE 30</b>					
Average common shares outstanding:					
Basic	6,781	6,693	6,608	6,576	6,574
Diluted	7,008	6,929	6,697	6,576	6,611
Total assets	\$ 181,672	\$ 164,677	\$ 157,670	\$ 150,971	\$ 179,906
Property, plant and equipment, net	29,867	21,387	21,614	23,298	26,372
Capital expenditures	10,939	2,573	1,251	1,203	1,228
Long-term debt					20,811
Working capital (current assets less current liabilities)	103,744	100,683	90,800	78,416	100,920
Shareholders' equity	\$ 139,442	\$ 128,573	\$ 117,612	\$ 106,998	\$ 112,752
<b>SELECTED RATIOS</b>					
Net income (loss), as a percent of sales	3.7	3.1	3.3	(0.5)	1.0
Current ratio	4.3 to 1	4.6 to 1	3.9 to 1	3.2 to 1	3.5 to 1
Return on ending shareholders' equity	9.4	8.1	9.2	(1.4)	3.8
Average number of employees	1,300	1,320	1,400	1,600	2,140

- (1) Fiscal 2011 net income and per share amounts include charges consisting of employee separation costs and inventory write down related to closing a manufacturing facility of \$1.0 million (after tax) or \$0.15 per share.
- (2) Fiscal 2009 net loss and per share amounts reflect facility consolidation and other costs (after tax) of \$1.5 million or \$0.23 per share.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

### General

The following analysis of the results of operations and financial condition of the Company should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

#### Critical Accounting Policies

The discussion and analysis of the Company's consolidated financial statements and results of operations are based on consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America. Preparation of these consolidated financial statements requires the use of estimates and judgments that affect the reported results. The Company uses estimates based on the best information available in recording transactions and balances resulting from business operations. Estimates are used for such items as collectability of trade accounts receivable and inventory valuation. Ultimate results may differ from these estimates under different assumptions or conditions.

**Allowance for doubtful accounts** – the Company establishes an allowance for doubtful accounts through review of open accounts, and historical collection and allowances amounts. The allowance for doubtful accounts is intended to reduce trade accounts receivable to the amount that reasonably approximates their net realizable value. The amount ultimately realized from trade accounts receivable may differ from the amount estimated in the consolidated financial statements based on collection experience.

**Inventories** – the Company values inventory at the lower of cost or net realizable value. Management assesses the inventory on hand and if necessary writes down the obsolete or excess inventory to net realizable value.

**Revenue recognition** – is upon delivery of product to our customer and when collectability is reasonably assured. Delivery of product to our customer is evidenced through the shipping terms indicating when title and risk of loss is transferred. Our ordering process creates persuasive evidence of the sale arrangement and the sales amount is determined. The delivery of the goods to our customer completes the earnings process. Net sales consist of product sales and related delivery charge revenue, net of adjustments for returns and allowances. Shipping and handling costs are included in cost of goods sold.

#### Recently Issued Accounting Pronouncements

See Item 8. Note 1 to the Company's Consolidated Financial Statements.

#### Results of Operations

The following table has been prepared as an aid in understanding the Company's results of operations on a comparative basis for the fiscal years ended June 30, 2012, 2011 and 2010. Amounts presented are percentages of the Company's net sales.

	<b>FOR THE YEARS ENDED JUNE 30,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	(75.8)	(77.2)	(77.2)
Gross margin	24.2	22.8	22.8
Selling, general and administrative	(18.4)	(17.8)	(17.5)
Facility consolidation and other charges		(0.3)	
Operating income	5.8	4.7	5.3
Other income, net	0.1	0.1	0.0
Income before income taxes	5.9	4.8	5.3
Income tax provision	(2.2)	(1.7)	(2.0)
Net income	3.7%	3.1%	3.3%

## Edgar Filing: FLEXSTEEL INDUSTRIES INC - Form 10-K

### Fiscal 2012 Compared to Fiscal 2011

Net sales for fiscal 2012 were \$352.1 million compared to \$339.4 million in the prior fiscal year, an increase of 3.7%. For the fiscal year ended June 30, 2012, residential net sales were \$275.4 million compared to \$258.1 million for the year ended June 30, 2011, an increase of 6.7%. Commercial net sales were \$76.7 million for the year ended June 30, 2012, a decrease of 5.8% from net sales of \$81.3 million for the year ended June 30, 2011.

Gross margin for the year ended June 30, 2012 was 24.2% compared to 22.8% for the prior year primarily due to better absorption of fixed costs on the higher sales volume and lower freight costs. The prior year included a \$0.6 million inventory write-down related to a facility closing.

Selling, general and administrative expenses for the fiscal year ended June 30, 2012 were \$65.0 million or 18.4% of net sales compared to \$60.4 million or 17.8% of net sales in the year ended June 30, 2011. The current year includes an increase in legal and professional fees of \$2.1 million, or 0.6% of sales, primarily related to an Indiana civil lawsuit and a \$1.0 million decrease in bad debt expense, compared to the prior year.

Operating income increased by \$4.4 million in fiscal year 2012 in comparison to the prior year. During fiscal year 2011, the Company recorded pre-tax charges of \$1.6 million related to closing a manufacturing facility. Of these pre-tax charges, employee separation and other closing costs of \$1.0 million are reported as facility closing costs and an inventory write-down of \$0.6 million is reported as cost of goods sold.

The effective tax rate for the fiscal year ended June 30, 2012 was 36.8% compared to 35.7% for fiscal year 2011. The change in effective tax rate is primarily due to the benefit of the Domestic Manufacturing Deduction under Internal Revenue Code Section 199 (DMD), which provides a tax benefit on U.S. based manufacturing, the change in provision for uncertain tax positions related to various state taxing jurisdictions and stock-based compensation.

The above factors resulted in net income for the fiscal year ended June 30, 2012 of \$13.1 million or \$1.86 per share compared to \$10.4 million or \$1.50 per share in fiscal 2011.

All earnings per share amounts are on a diluted basis.

### Fiscal 2011 Compared to Fiscal 2010

Net sales for fiscal 2011 were \$339.4 million compared to \$326.5 million in the prior fiscal year, an increase of 4.5%. Residential net sales were \$258.1 million compared to \$246.0 million in fiscal 2010, an increase of 4.9%. Commercial net sales were \$81.3 million for fiscal 2011, a increase of 1.1% from net sales of \$80.5 million for fiscal 2010.

The Company's operating income decreased by \$1.7 million in fiscal year 2011 in comparison to the prior year. During fiscal year 2011, the Company recorded pre-tax charges of \$1.6 million related to closing a manufacturing facility. Of these pre-tax charges, employee separation and other closing costs of \$1.0 million are reported as facility closing costs and an inventory write down of \$0.6 million is reported as cost of goods sold.

Gross margin for fiscal year 2011 and 2010 was 22.8%. The gross margin for the year ended June 30, 2011, includes the \$0.6 million inventory write-down related to facility closing offset by operational improvements.

For the fiscal years ended 2011 and 2010, selling, general and administrative expenses were 17.8% and 17.5% of net sales, respectively. The percentage increase for the year ended June 30, 2011 reflects higher legal and professional fees.

The effective tax rate for the fiscal year ended June 30, 2011 was 35.7% compared to 38.1% for fiscal year 2010. The change in the effective tax rate is primarily due to the change in provision for uncertain tax positions related to various state taxing jurisdictions, stock-based compensation and the benefit of the DMD. The DMD tax benefit available in previous years was being phased in by statute and was therefore lower than the full DMD tax benefit for 2011.

The above factors resulted in net income for the fiscal year ended June 30, 2011 of \$10.4 million or \$1.50 per share compared to \$10.8 million or \$1.61 per share in fiscal 2010.

All earnings per share amounts are on a diluted basis.



### Liquidity and Capital Resources

Working capital (current assets less current liabilities) at June 30, 2012 was \$103.7 million as compared to \$100.7 million at June 30, 2011. Significant changes in working capital from June 30, 2011 to June 30, 2012 included increased inventories of \$9.0 million and increased accounts receivable of \$2.2 million, offset by a decrease in cash of \$3.9 million and increased current liabilities of \$4.4 million. The higher inventory levels are to support the increases in residential sales volume, expanded product offerings and also reflect the timing of inventory receipts, especially imported finished products and components which require longer lead times. The increase in accounts receivable resulted from the higher shipments in the fourth fiscal quarter.

The Company's main source of liquidity is cash and cash flows from operations. As of June 30, 2012 and 2011, the Company had cash totaling \$14.0 million and \$17.9 million, respectively. The Company has borrowing availability under a credit agreement of up to \$12.5 million.

Cash decreased by \$3.9 million during fiscal year 2012 with net cash provided by operating activities of \$9.0 million offset by capital expenditures of \$10.9 million, including \$8.8 million related to construction of our corporate office building, and payment of dividends of \$2.5 million. Net cash provided by operating activities of \$13.8 million in fiscal year 2011 was comprised primarily of net income of \$10.4 million, changes in operating assets and liabilities of \$1.3 million and non-cash charges of \$4.7 million. Depreciation expense was \$2.8 million and \$2.7 million for the years ended June 30, 2012 and 2011, respectively.

Net cash used in investing activities was \$11.3 million in fiscal year 2012 compared to cash used in investing activities of \$2.7 million in fiscal year 2011. Net purchases of investments were \$0.4 million. Capital expenditures were \$10.9 million during fiscal year 2012.

Net cash used in financing activities was \$1.6 million in fiscal year 2012, primarily for the payment of dividends of \$2.5 million, compared to \$1.5 million in fiscal year 2011. For fiscal year 2011, the cash was used primarily for the payment of dividends of \$1.8 million.

The Company expects that capital expenditures will decrease to approximately \$6.0 million in fiscal year 2013, including \$2.6 million for the completion of the corporate office building. Management believes that the Company has adequate cash and credit arrangements to meet its operating and capital requirements for fiscal year 2013, including the completion of the corporate office building. In the opinion of management, the Company's liquidity and credit resources provide it with the ability to react to opportunities as they arise, to pay quarterly dividends to its shareholders, and to purchase productive capital assets that enhance safety and improve operations.

At June 30, 2012, the Company has no long-term debt obligations and therefore, no contractual interest payments are included in the table below. The following table summarizes the Company's contractual obligations at June 30, 2012 and the effect these obligations are expected to have on the Company's liquidity and cash flow in the future (in thousands):

	<b>Total</b>	<b>Less than 1 Year</b>	<b>1 - 3 Years</b>	<b>3 - 5 Years</b>	<b>More than 5 Years</b>
Operating lease obligations	\$ 10,337	\$ 1,842	\$ 4,146	\$ 931	\$ 3,418

Contractual obligations associated with the Company's deferred compensation plans were excluded from the table above as the Company cannot predict when the events that trigger payment will occur. Total accumulated deferred compensation liabilities were \$5.6 million at June 30, 2012. At June 30, 2012, the Company had no capital lease obligations, and no purchase obligations for raw materials or finished goods. The purchase price on all open purchase orders was fixed and denominated in U.S. dollars. Additionally, the Company has excluded the uncertain tax positions from the above table, as the timing of payments, if any, cannot be reasonably estimated.

### Financing Arrangements

See Note 6 to the Consolidated Financial Statements of this Annual Report on Form 10-K.



## Outlook

The Company believes that moderate overall top line growth will continue through the end of calendar year 2012 through additions to product offerings and expanding our residential customer base. The Company is expecting current order trends for commercial products to continue for the remainder of the calendar year. The Company is confident in its ability to take advantage of market opportunities as they present themselves. However, our optimism is guarded due to the uncertainty that the upcoming elections and economic factors have on consumers confidence and willingness to buy.

The Company remains committed to its core strategies, which include offering a wide range of quality products and price points to the residential and commercial markets, combined with a conservative approach to business. We will maintain our focus on a strong balance sheet and improving profitability. We believe these core strategies are in the best interest of our shareholders.

### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

*General* Market risk represents the risk of changes in the value of a financial instrument, derivative or non-derivative, caused by fluctuations in interest rates, foreign exchange rates and equity prices. As discussed below, management of the Company does not believe that changes in these factors could cause material fluctuations in the Company's results of operations or cash flows. The ability to import furniture products can be adversely affected by political issues in the countries where suppliers are located, disruptions associated with shipping distances and negotiations with port employees. Other risks related to furniture product importation include government imposition of regulations and/or quotas; duties and taxes on imports; and significant fluctuation in the value of the U.S. dollar against foreign currencies. Any of these factors could interrupt supply, increase costs and decrease earnings.

*Inflation* Increased operating costs are reflected in product or services pricing with any limitations on price increases determined by the marketplace. Inflation or other pricing pressures could impact raw material costs, labor costs and interest rates which are important components of costs for the Company and could have an adverse effect on our profitability, especially where increases in these costs exceed price increases on finished products.

*Foreign Currency Risk* During fiscal years 2012, 2011 and 2010, the Company did not have sales, purchases, or other expenses denominated in foreign currencies. As such, the Company is not directly exposed to market risk associated with currency exchange rates and prices.

*Interest Rate Risk* The Company's primary market risk exposure with regard to financial instruments is changes in interest rates. At June 30, 2012, the Company does not have any debt outstanding.

### Item 8. Financial Statements and Supplementary Data

	<b>Page(s)</b>
<u>Report of Independent Registered Public Accounting Firm</u>	14
<u>Consolidated Balance Sheets at June 30, 2012 and 2011</u>	15
<u>Consolidated Statements of Income for the Years Ended June 30, 2012, 2011 and 2010</u>	16
<u>Consolidated Statements of Comprehensive Income for the Years Ended June 30, 2012, 2011 and 2010</u>	16
<u>Consolidated Statements of Changes in Shareholders' Equity for the Years Ended June 30, 2012, 2011 and 2010</u>	17
<u>Consolidated Statements of Cash Flows for the Years Ended June 30, 2012, 2011 and 2010</u>	18
<u>Notes to Consolidated Financial Statements</u>	19-28

## Edgar Filing: FLEXSTEEL INDUSTRIES INC - Form 10-K

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Flexsteel Industries, Inc.

We have audited the accompanying consolidated balance sheets of Flexsteel Industries, Inc. and subsidiaries (the Company) as of June 30, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended June 30, 2012. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Flexsteel Industries, Inc. and subsidiaries as of June 30, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2012, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

*/s/ DELOITTE & TOUCHE LLP*  
Minneapolis, Minnesota

August 22, 2012

**FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES****Consolidated Balance Sheets**

(Amounts in thousands, except share and per share data)

	June 30,	
	2012	2011
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 13,970	\$ 17,889
Trade Receivables - less allowance for doubtful accounts: 2012, \$1,910; 2011, \$2,000	33,601	31,451
Inventories	82,689	73,680
Deferred income taxes	3,750	3,700
Other	1,583	1,633
Total current assets	135,593	128,353
<b>NONCURRENT ASSETS:</b>		
Property, plant and equipment, net	29,867	21,387
Deferred income taxes	3,160	2,560
Other assets	13,052	12,377
<b>TOTAL</b>	<b>\$ 181,672</b>	<b>\$ 164,677</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable - trade	\$ 12,973	\$ 9,899
<b>Accrued liabilities:</b>		
Payroll and related items	8,037	6,922
Insurance	4,440	5,645
Other	6,399	5,204
Total current liabilities	31,849	27,670
<b>LONG-TERM LIABILITIES:</b>		
Deferred compensation	5,613	5,270
Other liabilities	4,768	3,164
Total liabilities	42,230	36,104
<b>COMMITMENTS AND CONTINGENCIES (Note 12)</b>		
<b>SHAREHOLDERS EQUITY:</b>		
Cumulative preferred stock - \$50 par value; authorized 60,000 shares; outstanding - none		
Undesignated (subordinated) stock - \$1 par value; authorized 700,000 shares; outstanding - none		
Common stock - \$1 par value; authorized 15,000,000 shares; outstanding 2012, 6,905,534 shares; 2011, 6,710,612 shares		
Additional paid-in capital	6,906	6,711
Retained earnings	8,476	6,698
Accumulated other comprehensive loss	125,699	115,699
Total shareholders equity	(1,639)	(535)
<b>TOTAL</b>	<b>\$ 139,442</b>	<b>\$ 128,573</b>
<b>TOTAL</b>	<b>\$ 181,672</b>	<b>\$ 164,677</b>

*See accompanying Notes to Consolidated Financial Statements.*

**FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES****Consolidated Statements of Income**

(Amounts in thousands, except per share data)

	<b>FOR THE YEARS ENDED JUNE 30,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
NET SALES	\$ 352,089	\$ 339,426	\$ 326,466
COST OF GOODS SOLD	(266,810)	(262,124)	(251,685)
GROSS MARGIN	85,279	77,302	74,781
SELLING, GENERAL AND ADMINISTRATIVE	(65,033)	(60,422)	(57,252)
FACILITY CLOSING COSTS		(1,016)	
OPERATING INCOME	20,246	15,864	17,529
OTHER INCOME (EXPENSE):			
Interest and other income	422	343	361
Interest expense			(439)
Total	422	343	(78)
INCOME BEFORE INCOME TAXES	20,668	16,207	17,451
INCOME TAX PROVISION	(7,600)	(5,790)	(6,650)
NET INCOME	\$ 13,068	\$ 10,417	\$ 10,801
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:			
Basic	6,781	6,693	6,608
Diluted	7,008	6,929	6,697
EARNINGS PER SHARE OF COMMON STOCK:			
Basic	\$ 1.93	\$ 1.56	\$ 1.63
Diluted	\$ 1.86	\$ 1.50	\$ 1.61
CASH DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.45	\$ 0.30	\$ 0.20

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Amounts in thousands)

	<b>2012</b>	<b>2011</b>	<b>2010</b>
NET INCOME	\$ 13,068	\$ 10,417	\$ 10,801
UNREALIZED (LOSSES) GAINS ON SECURITIES	(5)	562	63
INCOME TAX BENEFIT (EXPENSE) RELATED TO SECURITIES GAINS	2	(214)	(24)
NET UNREALIZED (LOSSES) GAINS ON SECURITIES	(3)	348	39
INTEREST RATE DERIVATIVE			285
INCOME TAX EXPENSE RELATED TO INTEREST RATE DERIVATIVE			(108)
NET INTEREST RATE DERIVATIVE			177
MINIMUM PENSION LIABILITY	(1,771)	1,401	(328)
INCOME TAX BENEFIT (EXPENSE) RELATED TO MINIMUM PENSION LIABILITY	670	(532)	124
NET MINIMUM PENSION LIABILITY	(1,101)	869	(204)
OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAX	(1,104)	1,217	12
COMPREHENSIVE INCOME	\$ 11,964	\$ 11,634	\$ 10,813

*See accompanying Notes to Consolidated Financial Statements.*

**FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES****Consolidated Statements of Changes in Shareholders' Equity**

(Amounts in thousands)

	Total Par Value of Common Shares (\$1 Par)	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balance at July 1, 2009	\$ 6,576	\$ 4,370	\$ 97,816	\$ (1,764)	\$ 106,998
Issuance of common stock:					
Stock options exercised, net	70	274			344
Unrealized gain on available for sale investments, net of tax				39	39
Long-term incentive compensation		510			510
Stock-based compensation		271			271
Interest rate swaps valuation adjustment, net of tax				177	177
Minimum pension liability adjustment, net of tax				(204)	(204)
Cash dividends declared			(1,324)		(1,324)
Net income			10,801		10,801
Balance at June 30, 2010	6,646	5,425	107,293	(1,752)	117,612
Issuance of common stock:					
Stock options exercised, net	65	259			324
Unrealized gain on available for sale investments, net of tax				348	348
Long-term incentive compensation		590			590
Stock-based compensation		424			424
Minimum pension liability adjustment, net of tax				869	869
Cash dividends declared			(2,011)		(2,011)
Net income			10,417		10,417
Balance at June 30, 2011	6,711	6,698	115,699	(535)	128,573
Issuance of common stock:					
Stock options exercised, net	156	761			917
Unrealized gain on available for sale investments, net of tax				(3)	(3)
Long-term incentive compensation	39	761			800
Stock-based compensation		256			256
Minimum pension liability adjustment, net of tax				(1,101)	(1,101)
Cash dividends declared			(3,068)		(3,068)
Net income			13,068		13,068
Balance at June 30, 2012	\$ 6,906	\$ 8,476	\$ 125,699	\$ (1,639)	\$ 139,442

See accompanying Notes to Consolidated Financial Statements.

**FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows**

(Amounts in thousands)

	<b>FOR THE YEARS ENDED JUNE 30,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>OPERATING ACTIVITIES:</b>			
Net income	\$ 13,068	\$ 10,417	\$ 10,801
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	2,835	2,690	2,986
Deferred income taxes	23	54	(963)
Stock-based compensation expense	1,056	1,014	781
Provision for losses on accounts receivable	(150)	870	920
Other non-cash, net	7	224	218
Gain on disposition of capital assets	(34)	(185)	(9)
Changes in operating assets and liabilities:			
Trade receivables	(2,000)	3,427	(5,386)
Inventories	(9,009)	(1,043)	1,207
Other current assets	50	(557)	2,837
Other assets	(308)	(270)	(18)
Accounts payable - trade	2,699	(841)	994
Accrued liabilities	572	(2,541)	3,618
Other long-term liabilities	(174)	367	1,028
Deferred compensation	342	174	105
Net cash provided by operating activities	8,977	13,800	19,119
<b>INVESTING ACTIVITIES:</b>			
Purchases of investments	(777)	(698)	(721)
Proceeds from sales of investments	405	410	359
Proceeds from sale of capital assets	34	187	34
Capital expenditures	(10,939)	(2,573)	(1,251)
Net cash used in investing activities	(11,277)	(2,674)	(1,579)
<b>FINANCING ACTIVITIES:</b>			
Repayments of short-term borrowings, net			(10,000)
Dividends paid	(2,535)	(1,839)	(1,320)
Proceeds from issuance of common stock	916	324	344
Net cash used in financing activities	(1,619)	(1,515)	(10,976)
(Decrease) increase in cash and cash equivalents	(3,919)	9,611	6,564
Cash at beginning of year	17,889	8,278	1,714
Cash at end of year	\$ 13,970	\$ 17,889	\$ 8,278

	<b>FOR THE YEARS ENDED JUNE 30,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>SUPPLEMENTAL INFORMATION CASH PAID DURING THE PERIOD</b>			
<b>FOR:</b>			
Interest	\$	\$	\$ 439
Income taxes paid	\$ 6,237	\$ 7,647	\$ 3,587

See accompanying Notes to Consolidated Financial Statements.

**FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**DESCRIPTION OF BUSINESS** Flexsteel Industries, Inc. and subsidiaries (the Company) is one of the oldest and largest manufacturers, importers and marketers of residential and commercial upholstered and wooden furniture products in the United States. The Company's furniture products include a broad line of quality upholstered and wooden furniture for residential and commercial use. Product offerings include a wide variety of upholstered and wood furniture such as sofas, loveseats, chairs, reclining and rocker-reclining chairs, swivel rockers, sofa beds, convertible bedding units, occasional tables, desks, dining tables and chairs, bedroom furniture and home and commercial office furniture. The Company has one active wholly-owned subsidiary: DMI Furniture, Inc. (DMI), which is a Louisville, Kentucky-based, importer and marketer of residential and commercial office furniture with warehouses in Indiana and manufacturing sources in Asia; DMI's divisions are WYNWOOD, Homestyles and DMI Commercial Office Furniture.

**PRINCIPLES OF CONSOLIDATION** the consolidated financial statements include the accounts of Flexsteel Industries, Inc. and its wholly owned subsidiaries. All intercompany transactions and accounts have been eliminated in consolidation.

**USE OF ESTIMATES** the preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Ultimate results could differ from those estimates.

**FAIR VALUE** the Company's cash, accounts receivable, other current assets, accounts payable and certain accrued liabilities are carried at amounts which reasonably approximate their fair value due to their short-term nature. Generally accepted accounting principles on fair value measurement for certain financial assets and liabilities require that each asset and liability carried at fair value be classified into one of the following categories: Level 1: Quoted market prices in active markets for identical assets and liabilities; Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data; or Level 3: Unobservable inputs that are not corroborated by market data. The Company has not changed its valuation techniques in measuring the fair value of any financial assets and liabilities during the period.

**ALLOWANCE FOR DOUBTFUL ACCOUNTS** the Company establishes an allowance for doubtful accounts through review of open accounts, and historical collection and allowances amounts. The allowance for doubtful accounts is intended to reduce trade accounts receivable to the amount that reasonably approximates their net realizable value. The amount ultimately realized from trade accounts receivable may differ from the amount estimated in the consolidated financial statements based on collection experience.

**INVENTORIES** are stated at the lower of cost or net realizable value. Steel products, which represent approximately 6% of total inventory, are valued on the last-in, first-out (LIFO) method. All other inventories are valued on the first-in, first-out (FIFO) method.

**PROPERTY, PLANT AND EQUIPMENT** is stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets. For internal use software, the Company's policy is to capitalize external direct costs of materials and services, directly related internal payroll and payroll-related costs, and interest costs. These costs are amortized using the straight-line method over the useful lives.

**VALUATION OF LONG LIVED ASSETS** the Company periodically reviews the carrying value of long-lived assets and estimated depreciable or amortizable lives for continued appropriateness. This review is based upon projections of anticipated future cash flows and is performed whenever events or changes in circumstances indicate that asset carrying values may not be recoverable or that the estimated depreciable or amortizable lives may have changed.

**WARRANTY** the Company estimates the amount of warranty claims on sold product that may be incurred based on current and historical data. The actual warranty expense could differ from the estimates made by the Company based on product performance.

**REVENUE RECOGNITION** is upon delivery of product to the Company's customer and when collectibility is reasonably assured. The Company's ordering process creates persuasive evidence of the sale arrangement and the sales amount is determined. The delivery of the goods to the customer completes the earnings process. Net sales consist of product sales and related delivery charge revenue, net of adjustments for returns and allowances. Shipping and handling costs are included in cost of goods sold.

**ADVERTISING COSTS** are charged to selling, general and administrative expense in the periods incurred. The Company conducts no direct-response advertising programs and there are no assets related to advertising recorded on the consolidated balance sheet. Advertising expenditures, primarily shared customer advertising in which an identifiable benefit is received and national

## Edgar Filing: FLEXSTEEL INDUSTRIES INC - Form 10-K

trade-advertising programs, were approximately \$4.9 million, \$4.5 million and \$4.1 million in fiscal 2012, 2011 and 2010, respectively.

DESIGN, RESEARCH AND DEVELOPMENT COSTS are charged to selling, general and administrative expense in the periods incurred. Expenditures for design, research and development costs were approximately \$2.3 million, \$2.2 million and \$2.0 million in fiscal 2012, 2011 and 2010, respectively.



**INSURANCE** the Company is self-insured for health care and most workers' compensation up to predetermined amounts above which third party insurance applies. The Company purchases specific stop-loss insurance for individual health care claims in excess of \$150,000 per plan year. For workers' compensation the Company retains the first \$350,000 per claim and purchases excess coverage up to the statutory limits for amounts in excess of the retention limit. Losses are accrued based upon the Company's estimates of the aggregate liability for claims incurred using certain actuarial assumptions followed in the insurance industry and based on Company experience. The Company records these insurance accruals within the accrued liabilities insurance account on the consolidated balance sheets.

**INCOME TAXES** the Company uses the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company recognizes in its financial statements the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position.

**EARNINGS PER SHARE (EPS)** basic earnings per share of common stock is based on the weighted-average number of common shares outstanding during each fiscal year. Diluted earnings per share of common stock includes the dilutive effect of potential common shares outstanding. The Company's potential common shares outstanding are stock options and shares associated with the long-term management incentive compensation plan. The Company calculates the dilutive effect of outstanding options using the treasury stock method. Anti-dilutive shares are not included in the computation of diluted EPS when their exercise price was greater than the average closing market price of the common shares. The Company calculates the dilutive effect of shares related to the long-term management incentive compensation plan based on the number of shares, if any, that would be issuable if the end of the fiscal year were the end of the contingency period.

In computing EPS for the fiscal years ended 2012, 2011 and 2010, net income as reported for each respective period is divided by the fully diluted weighted average number of shares outstanding:

(in thousands)	2012	June 30, 2011	2010
Basic shares	6,781	6,693	6,608
Potential common shares:			
Stock options	142	147	62
Long-term incentive plan	85	89	27
	227	236	89
Diluted shares	7,008	6,929	6,697
Anti-dilutive shares	300	424	717

**STOCK BASED COMPENSATION** the Company recognizes compensation expense related to the cost of employee services received in exchange for Company equity interests based on the award's fair value at the date of grant. See Note 8 Stock-Based Compensation.

**ACCOUNTING DEVELOPMENTS** In September 2011, the FASB issued ASU 2011-09 which pertains to employer's participation in multiemployer benefit plans, amending ASC 715-80. ASU 2011-09 enhances the disclosures about significant multiemployer plans in which an employer participates, the level of the employer's participation, the financial health of the plans and the nature of the employer's commitments to the plans. The new disclosure requirements were required for fiscal years ending after December 15, 2011 and there was no financial impact on the Company. See Note 9, Multi-employer Pension Plans.

In June 2011, the FASB issued guidance on presentation of comprehensive income. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. Instead, an entity is required to present either a continuous statement of net income and other comprehensive income or in two separate but consecutive statements. This guidance was effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. The Company adopted this presentation of comprehensive income during the first quarter of fiscal 2012 and has presented separate consolidated statements of comprehensive income.

**2. INVENTORIES**

Inventories valued on a LIFO basis (steel) would have been approximately \$1.7 million and \$1.9 million higher at June 30, 2012 and 2011, respectively, if they had been valued on a FIFO basis. At June 30, 2012 and 2011 the total value of LIFO inventory was \$2.9 million and \$1.5 million, respectively. There was no material liquidation of LIFO inventory in 2012 and 2011. A comparison of inventories is as follows:

(in thousands)	June 30,	
	2012	2011
Raw materials	\$ 10,410	\$ 9,235
Work in process and finished parts	5,288	3,951
Finished goods	66,991	60,494
Total	\$ 82,689	\$ 73,680

**3. PROPERTY, PLANT AND EQUIPMENT**

(in thousands)	Estimated Life (Years)	June 30,	
		2012	2011
Land		\$ 4,150	\$ 3,984
Buildings and improvements	5-39	39,978	39,851
Machinery and equipment	3-7	26,449	26,513
Delivery equipment	3-5	18,113	18,180
Furniture and fixtures	3-7	3,843	4,000
Construction in progress		9,333	366
Total		101,866	92,894
Less accumulated depreciation		(71,999)	(71,507)
Net		29,867	21,387

**4. OTHER NONCURRENT ASSETS**

(in thousands)	June 30,	
	2012	2011
Cash value of life insurance	\$ 7,072	\$ 6,815
Rabbi Trust assets (see Note 9)	5,900	5,533
Other	80	29
Total	\$ 13,052	\$ 12,377

**5. ACCRUED LIABILITIES OTHER**

(in thousands)	June 30,	
	2012	2011
Dividends	\$ 1,036	\$ 504
Income taxes	562	
Advertising	1,899	1,873
Warranty	1,010	970
Other	1,892	1,857
Total	\$ 6,399	\$ 5,204



## 6. CREDIT ARRANGEMENTS

The Company maintains a credit agreement which provides short-term working capital financing up to \$15.0 million with interest of LIBOR plus 1%, including \$5.0 million of letters of credit availability. This credit agreement expires June 30, 2013. No amounts were outstanding at June 30, 2012 and 2011 under the working capital facility. The credit agreement contains financial covenants. The primary covenant is an interest coverage ratio of 3.0 to 1.0. The ratio is computed as net income plus interest expense and stock-based compensation expense less dividends divided by interest expense. In addition, the Company must maintain working capital of \$60.0 million. At June 30, 2012, the Company was in compliance with all of the covenants contained in the credit agreement. The Company is contingently liable to insurance carriers under its comprehensive general, product, and vehicle liability policies, as well as some workers' compensation, and has provided letters of credit in the amount of \$2.5 million at June 30, 2012.

## 7. INCOME TAXES

In determining the provision for income taxes, the Company uses an estimated annual effective tax rate that is based on the annual income, statutory tax rates and permanent differences between book and tax. This includes recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns to the extent pervasive evidence exists that they will be realized in future periods. The deferred tax balances are adjusted to reflect tax rates by tax jurisdiction, based on currently enacted tax laws, which are expected to be in effect in the years in which the temporary differences are expected to reverse. In accordance with the Company's income tax policy, significant or unusual items are separately recognized when they occur.

The components of the gross liabilities related to unrecognized tax benefits and the related deferred tax assets are as follows:

(in thousands)	June 30,	
	2012	2011
Gross unrecognized tax benefits	\$ 1,000	\$ 970
Accrued interest and penalties	365	340
Gross liabilities related to unrecognized tax benefits	\$ 1,365	\$ 1,310
Deferred tax assets	\$ 350	\$ 330

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(in thousands)	2012	2011	2010
Balance at July 1	\$ 970	\$ 995	\$ 404
Additions based on tax positions related to the current year	207	193	250
Additions for tax positions of prior years		41	420
Reductions for tax positions of prior years	(177)	(259)	(79)
Balance at June 30	\$ 1,000	\$ 970	\$ 995

The Company records interest and penalties related to income taxes as income tax expense in the Consolidated Statements of Income. The Company does not expect that there will be any positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next twelve months.

The income tax provision (benefit) is as follows for the years ended June 30:

(in thousands)	2012	2011	2010
Federal- current	\$ 6,969	\$ 5,313	\$ 6,630
State - current	608	423	975
Deferred	23	54	(955)
Total	\$ 7,600	\$ 5,790	\$ 6,650



## Edgar Filing: FLEXSTEEL INDUSTRIES INC - Form 10-K

A reconciliation between the U.S. federal statutory tax rate and the effective tax rate is as follows for the years ended June 30:

	2012	2011	2010
Federal statutory tax rate	35.0%	35.0%	35.0%
State taxes, net of federal effect	2.9	2.6	3.7
Other	(1.1)	(1.9)	(0.6)
Effective tax rate	36.8%	35.7%	38.1%

The effective tax rate for the fiscal years ended June 30, 2012, 2011, 2010 was 36.8%, 35.7%, and 38.1%, respectively. The changes in effective tax rates are primarily due to the change in provision for uncertain tax positions related to various state taxing jurisdictions, the benefit of the Domestic Manufacturing Deduction under Section 199 (DMD), which provides a tax benefit on U.S. based manufacturing and stock-based compensation.

The primary components of deferred tax assets and (liabilities) are as follows:

(in thousands)	June 30, 2012		June 30, 2011	
	Current	Long-term	Current	Long-term
Accounts receivable	\$ 710	\$	\$ 740	\$
Inventory	1,390		1,360	
Self insurance	480		620	
Employee benefits	480		360	
Accrued expenses	690		620	
Property, plant and equipment		(860)		(760)
Deferred compensation		2,430		2,520
Other		1,590		800
<b>Total</b>	<b>\$ 3,750</b>	<b>\$ 3,160</b>	<b>\$ 3,700</b>	<b>\$ 2,560</b>

The Company is subject to U.S. federal income tax as well as income tax of multiple state and foreign jurisdictions. Generally, tax years 2008-2011 remain open to examination by the Internal Revenue Service or other taxing jurisdictions to which we are subject.

### 8. STOCK-BASED COMPENSATION

The Company has two stock-based compensation methods available when determining employee compensation.

- (1) **Long-Term Management Incentive Compensation Plan** The plan provides for shares of common stock and cash to be awarded to officers and key employees based on performance targets set by the Nominating and Compensation Committee of the Board of Directors (the Committee). The Company's shareholders approved 500,000 shares to be issued under the plan. As of June 30, 2012, 38,944 shares have been issued. The Committee selected consolidated operating results for organic net sales growth and fully-diluted earnings per share for the three-year performance periods beginning July 1, 2009 and ending on June 30, 2012, beginning July 1, 2010 and ending on June 30, 2013, and beginning July 1, 2011 and ending on June 30, 2014. The Committee has also specified that payouts, if any, for awards earned under the fiscal years 2010-2012, 2011-2013 and 2012-2014 performance periods will be 60% stock and 40% cash. Awards will be paid to participants as soon as practicable following the end of the performance periods subject to Committee approval and verification of results. The compensation cost related to the number of shares to be granted under each performance period is fixed on the grant date, which is the date the performance period begins. The compensation cost related to the cash portion of the award is re-measured based on the equity award's estimated fair value at the end of each reporting period. The accrual is based on the probable outcomes of the performance conditions. The short-term portion of the recorded cash award payable is classified within current liabilities-payroll and related and the long-term portion of the recorded cash award payable is classified within other long-term liabilities in the Consolidated Balance Sheets. The Company has recorded cash awards payable of \$1.1 million and \$0.4 million within current liabilities and \$0.7 million and \$0.7 million within long-term liabilities for the fiscal years ended June 30, 2012 and 2011, respectively.

## Edgar Filing: FLEXSTEEL INDUSTRIES INC - Form 10-K

The aggregate number of shares and cash that could be awarded to key executives if the minimum, target and maximum performance goals are met, based upon the fair market value at June 30, 2012, is as follows:

(in thousands) Performance Period	Minimum		Target		Maximum	
	Shares	Cash	Shares	Cash	Shares	Cash
Fiscal Year 2010 - 2012	20	\$ 268	58	\$ 767	93	\$ 1,227
Fiscal Year 2011 - 2013	17	\$ 219	48	\$ 627	76	\$ 1,003
Fiscal Year 2012 - 2014	13	\$ 171	37	\$ 490	59	\$ 784

If the target performance goals would be achieved, the total amount of compensation cost recognized over the requisite service periods would be \$1.3 million (2010-2012), \$1.1 million (2011-2013) and \$1.0 million (2012-2014) based on the estimated fair values at June 30, 2012. The Company recorded compensation expense of \$1.8 million, \$1.3 million, and \$0.9 during fiscal years 2012, 2011, 2010, respectively.

- (2) **Stock Option Plans** The stock option plans for key employees and directors provide for the granting of incentive and nonqualified stock options. Under the plans, options are granted at an exercise price equal to the fair market value of the underlying common stock at the date of grant, and may be exercisable for up to 10 years. All options are exercisable when granted.

In fiscal years 2012, 2011 and 2010, the Company issued options for 82,500, 87,500 and 165,000 common shares at weighted average exercise prices of \$13.87, \$17.23 and \$8.43 (the fair market value on the date of grant), respectively. The options were immediately available for exercise and may be exercised for a period of 10 years. The Company recorded compensation expense of \$0.3 million, \$0.4 million and \$0.3 million during fiscal years 2012, 2011 and 2010, respectively. The assumptions used in determining the compensation expense are discussed below.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in fiscal 2012, 2011 and 2010, respectively; dividend yield of 2.9%, 1.2% and 2.4%, expected volatility of 34.4%, 33.4% and 25.3%; risk-free interest rate of 0.9%, 1.5% and 2.2%; and an expected life of 5, 5 and 5 years, respectively. The expected volatility and expected life are determined based on historical data.

The weighted-average grant date fair value of stock options granted during fiscal years 2012, 2011 and 2010 was \$3.11, \$4.84 and \$1.64, respectively. The cash proceeds from stock options exercised were \$0.9 million, \$0.3 million and \$0.3 million, respectively, for fiscal years ended June 30, 2012, 2011 and 2010. The income tax benefit related to the exercise of stock options was \$0.1 million, \$0.0 million and \$0.0 million for fiscal year ended June 30, 2012, 2011 and 2010, respectively.

At June 30, 2012, 343,850 shares were available for future grants. It is the Company's policy to issue new shares upon exercise of stock options. The Company accepts shares of the Company's common stock as payment for the exercise price of options. These shares received as payment are retired upon receipt.

A summary of the status of the Company's stock option plans as of June 30, 2012, 2011 and 2010 and the changes during the years then ended is presented below:

	Shares (in thousands)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Outstanding and exercisable at June 30, 2010	1,052	\$ 12.70	\$ 1,168
Granted	88	17.23	
Exercised	(91)	7.41	
Canceled	(3)	17.30	
Outstanding and exercisable at June 30, 2011	1,046	13.56	2,271
Granted	83	13.87	
Exercised	(306)	12.57	
Canceled	(5)	17.12	
Outstanding and exercisable at June 30, 2012	818	\$ 13.94	\$ 4,783





The following table summarizes information for options outstanding and exercisable at June 30, 2012:

	Range of Prices	Options Outstanding (in thousands)	Weighted Average Remaining Life (Years)	Exercise Price
\$	6.81 - 8.55	153	7.0	\$ 7.67
	12.35 - 13.90	254	6.1	12.86
	14.40 - 16.52	214	2.8	15.49
	17.23 - 20.27	197	4.1	18.52
\$	6.81 - 20.27	818	4.9	13.94

## 9. BENEFIT AND RETIREMENT PLANS

### Defined Contribution and Retirement Plans

The Company sponsors various defined contribution pension and retirement plans, which cover substantially all employees, other than employees covered by multi-employer pension plans under collective bargaining agreements. Total pension and retirement plan expense was \$1.6 million, \$1.7 million and \$1.5 million in fiscal years 2012, 2011 and 2010. The amounts include \$0.4 million in fiscal year 2012, \$0.5 million in fiscal 2011 and \$0.4 million in fiscal years 2010, for the Company's matching contribution to retirement savings plans. The Company's cost for pension plans is generally determined as 2% - 6% of each covered employee's wages. The Company's matching contribution for the retirement savings plans is generally 25% - 50% of employee contributions (up to 4% of employee earnings).

### Multi-employer Pension Plans

The Company contributes to three multi-employer defined benefit pension plans under the terms of collective-bargaining agreements that cover its union-represented employees. The risks of participating in these multi-employer plans are different from single-employer plans in the following aspects:

Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.

If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be shared by the remaining participating employers.

If a participating employer chooses to stop participating in some of its multi-employer plans, the employer may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Company's participation in these plans for the annual period ended June 30, 2012, is outlined in the following table. Unless otherwise noted, the most recent Pension Protection Act zone status available in 2012 and 2011 is for the plan's year-end at December 31, 2011 and 2010, respectively. The zone status is based on information that the Company received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are between 65 percent and 80 percent funded, and plans in the green zone are at least 80 percent funded.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status June 30,		Rehabilitation Plan Status	Company Contributions (in thousands)			Surcharge Imposed	Expiration Date of Collective Bargaining Agreement	Number of Company Employees in Plan
		2012	2011		2012	2011	2010			
Central States Southeast and Southwest Areas Pension Fund	36-6044243	Red	Red	Implemented	\$ 254	\$ 249	\$ 228	Yes	03/28/2015	18
Steelworkers Pension Trust	23-6648508	Green	Green	No	285	283	278	No	11/03/2012	175
Central Pension Fund	36-6052390	Green	Green	No	7	7	8	No	06/01/2013	3
					\$ 546	\$ 539	\$ 514			

Edgar Filing: FLEXSTEEL INDUSTRIES INC - Form 10-K

The cumulative cost to exit the Company's multi-employer plans was approximately \$7.8 million, \$7.2 million and \$7.3 million on June 30, 2012.

### Deferred Compensation Plans

The Company has unfunded deferred compensation plans with executive officers. The plans require various annual contributions for the participants based upon compensation levels and age. All participants are fully vested. At June 30, 2012 and 2011, the deferred compensation liability was \$5.6 million and \$5.3 million, respectively.

The Company maintains supplemental retirement plans, collectively referred to as the Supplemental Plan, which provides for additional annual defined contributions toward retirement benefits to the Company's executive officers. For fiscal 2012, 2011 and 2010, the benefit obligation was increased by interest expense of \$0.3 million, \$0.2 million and \$0.2 million, service costs of \$0.4 million, \$0.4 million and \$0.3 million, and decreased by payments of \$0.4 million, \$0.4 million and \$0.4 million, respectively. Funds of the deferred compensation plans are held in a Rabbi Trust. The assets held in the Rabbi Trust are not available for general corporate purposes. The Rabbi Trust is subject to creditor claims in the event of insolvency, but otherwise must be used only for purposes of providing benefits under the plans. As of June 30, 2012, the Company's deferred compensation plan assets, held in the Rabbi Trust, were invested in stock and bond funds. As of June 30, 2012 and 2011, the fair market value of the assets held in the Rabbi Trust were \$5.9 million and \$5.5 million, respectively, and are classified as Other Assets in the Consolidated Balance Sheets. These assets are classified as Level 2 in accordance with fair value accounting as discussed in Note 1.

Under provisions of the Company's Voluntary Deferred Compensation Plan, executive officers may defer common stock awards received as part of incentive compensation plans until retirement. Under the plan, no shares were deferred during the fiscal years ended June 30, 2012 and 2011. At June 30, 2012 and 2011, 36,867 shares with an award date value of \$0.7 million and \$0.5 million, respectively, had been deferred and are being held on behalf of the employees. Under the plan, no shares and 5,227 shares were distributed in fiscal years 2012 and 2011, respectively.

### Defined Benefit Plan

The Company's defined benefit pension plan is frozen. There are a total of 430 participants in the plan. Retirement benefits are based on years of credited service multiplied by a dollar amount negotiated under collective bargaining agreements. The Company's policy is to fund normal costs and amortization of prior service costs at a level that is equal to or greater than the minimum required under the Employee Retirement Income Security Act of 1974 (ERISA). As of June 30, 2012 and 2011, the Company recorded an accrued benefit liability related to the funded status of the defined benefit pension plan recognized on the Company's consolidated balance sheets in other long-term liabilities of \$2.7 million and \$1.1 million, respectively. The accumulated benefit obligation was \$7.8 million and \$6.2 million at fiscal years ended June 30, 2012 and 2011, respectively. The Company recorded expense of \$0.0 million, \$0.2 million and \$0.2 million during fiscal years 2012, 2011 and 2010, respectively, related to the plan.

## 10. ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of accumulated other comprehensive loss, net of income taxes, are as follows:

(in thousands)	June 30,	
	2012	2011
Available-for-sale securities	\$ 334	\$ 337
Pension and other post-retirement benefit adjustments	(1,973)	(872)
Total accumulated other comprehensive loss	\$ (1,639)	\$ (535)

## 11. LITIGATION

**Indiana Civil Litigation** The Company has been named as one of several defendants in a lawsuit related to groundwater contamination. The lawsuit alleges that the contamination source is a property once owned by the Company. The Company does not believe that it caused or contributed to the contamination. Plaintiffs have not identified a dollar amount of their alleged damages and the status of insurance coverage has not been determined. We are unable to estimate a range of reasonably possible outcomes or losses at this time. Accordingly, no accrual related to this matter has been recorded in the June 30, 2012 financial statements. Legal and other related expenses of \$2.4 million and \$0.5 million have been incurred responding to this lawsuit for the fiscal year 2012 and 2011, respectively, and are included in Selling, General and Administrative expense in the Consolidated Statements of Income.

**Other Proceedings** From time to time, the Company is subject to various other legal proceedings, including lawsuits, which arise out of, and are incidental to, the conduct of the Company's business. The Company does not consider any of such other proceedings that are currently pending, individually or in the aggregate, to be material to its business or likely to result in a material effect on its consolidated

operating results, financial condition, or cash flows.

**12. COMMITMENTS AND CONTINGENCIES**

**FACILITY LEASES** the Company leases certain facilities and equipment under various operating leases. These leases require the Company to pay the lease cost, operating costs, including property taxes, insurance, and maintenance. Total lease expense related to the various operating leases was approximately \$2.2 million, \$2.7 million and \$3.4 million in fiscal 2012, 2011 and 2010, respectively.

Expected future minimum commitments under operating leases as of June 30, 2012 were as follows (in thousands):

<b>Fiscal Year Ended June 30,</b>	
2013	\$ 1,842
2014	1,705
2015	1,372
2016	1,069
2017	931
Thereafter	3,418
	<b>\$ 10,337</b>

**13. FACILITY CLOSING COSTS**

During the fiscal year 2011, the Company closed a manufacturing facility and recorded pre-tax charges for facility closing costs of \$1.0 million. The charges represent employee separation costs of \$0.6 million and other closing costs of \$0.4 million and were classified as Facility Closing Costs in the Consolidated Statements of Income for the fiscal year ended June 30, 2011.

**14. SEGMENT REPORTING**

The Company operates in one reportable segment, furniture products. Our operations involve the distribution of manufactured and imported furniture for residential and commercial markets. The Company's furniture products are sold primarily throughout the United States by the Company's internal sales force and various independent representatives. The Company makes minimal export sales. No single customer accounted for more than 10% of net sales.

Set forth below is information for the past three fiscal years showing the Company's net sales attributable to each of the areas of application:

(in thousands)	<b>FOR THE YEARS ENDED JUNE 30,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Residential	\$ 275,442	\$ 258,095	\$ 246,041
Commercial	76,647	81,331	80,425
	<b>\$ 352,089</b>	<b>\$ 339,426</b>	<b>\$ 326,466</b>

**15. SUPPLEMENTARY QUARTERLY FINANCIAL INFORMATION UNAUDITED**

(in thousands, except per share amounts)

	<b>FOR THE QUARTER ENDED</b>			
	<b>September 30</b>	<b>December 31</b>	<b>March 31</b>	<b>June 30</b>
<b>Fiscal 2012:</b>				
Net sales	\$ 81,520	\$ 85,001	\$ 91,631	\$ 93,936
Gross margin	18,964	20,458	22,098	23,759
Net income	2,378	2,948	3,343	4,399
<b>Earnings per share:</b>				
Basic	\$ 0.35	\$ 0.44	\$ 0.49	\$ 0.64
Diluted	\$ 0.34	\$ 0.42	\$ 0.48	\$ 0.61



	FOR THE QUARTER ENDED			
	September 30	December 31	March 31	June 30
<b>Fiscal 2011:</b>				
Net sales	\$ 87,230	\$ 82,821	\$ 85,175	\$ 84,200
Gross margin	19,606	18,825	18,207	20,664
Net income (1)	2,343	2,131	2,455	3,488
<b>Earnings per share:</b>				
Basic	\$ 0.35	\$ 0.32	\$ 0.37	\$ 0.52
Diluted	\$ 0.34	\$ 0.31	\$ 0.35	\$ 0.50

(1) The quarter ended September 30, 2010 includes facility closing costs after-tax of \$1.0 million or \$0.15 per share, respectively.

## Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

### Item 9A. Controls and Procedures

**Evaluation of disclosure controls and procedures** Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-K, the Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e)) under the Securities Act of 1934, as amended) were effective as of June 30, 2012.

**Changes in internal control over financial reporting** During the year-ended June 30, 2012, there was no change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

**Management's Annual Report on Internal Control Over Financial Reporting** Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) or 15d-15(f) of the Securities Exchange Act of 1934, as amended. We performed an evaluation under the supervision and with the participation of our management, including the CEO and CFO, to assess the effectiveness of the design and operation of our disclosure controls and procedures under the Exchange Act as of June 30, 2012. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework*. Based on those criteria, management concluded that the internal control over financial reporting is effective as of June 30, 2012.

### Item 9B. Other Information

None.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance

The information contained in the Company's 2012 definitive proxy statement to be filed with the Securities and Exchange Commission under the sections captioned "Proposal 1 Election of Directors," "Corporate Governance - Audit and Ethics Committee," "Corporate Governance - Nomination Matters," and "Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated herein by reference.

The Company has adopted a code of ethics called the *Guidelines for Business Conduct* that applies to the Company's employees, including the principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions. A copy of the code of ethics is posted on our website at [www.flexsteel.com](http://www.flexsteel.com).

### Item 11. Executive Compensation

Edgar Filing: FLEXSTEEL INDUSTRIES INC - Form 10-K

The information contained in the Company's 2012 definitive proxy statement to be filed with the Securities and Exchange Commission under the sections captioned Executive Compensation, and Director Compensation, is incorporated herein by reference.



## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information contained in the Company's 2012 definitive proxy statement to be filed with the Securities and Exchange Commission under the sections captioned "Ownership of Stock By Directors and Executive Officers," "Ownership of Stock by Certain Beneficial Owners," and "Equity Compensation Plan Information" is incorporated herein by reference.

## Item 13. Certain Relationships and Related Transactions, and Director Independence

This information contained under the sections "Interest of Management and Others in Certain Transactions" and "Corporate Governance Board of Directors" in the Company's 2012 definitive proxy statement to be filed with the Securities and Exchange Commission is incorporated herein by reference.

## Item 14. Principal Accountant Fees and Services

Deloitte & Touche LLP was the Company's independent registered public accounting firm in fiscal 2012. In addition to performing the audit of the Company's consolidated financial statements, Deloitte & Touche LLP provided various audit-related services during fiscal 2012.

The Audit and Ethics Committee pre-approves both the type of services to be provided by Deloitte & Touche LLP and the estimated fees related to these services. The Audit and Ethics Committee reviewed professional services and the possible effect on Deloitte & Touche LLP's independence was considered. The Audit and Ethics Committee has considered and found the provision of services for non-audit services compatible with maintaining Deloitte & Touche LLP's independence. All services provided by Deloitte & Touche LLP during fiscal 2012 were pre-approved by the Audit and Ethics Committee.

(in thousands)	2012	2011
Audit Fees (1)	\$ 363	\$ 358
Tax Fees (2)		15
	\$ 363	\$ 373

- (1) Professional fees and expenses for the audit of financial statements for fiscal 2012 and fiscal 2011 consisted of (i) audit of the Company's annual consolidated financial statements; (ii) reviews of the Company's quarterly consolidated financial statements; (iii) employee benefit plan audits; (iv) consents and other services related to Securities and Exchange Commission matters; and (v) consultations on financial accounting and reporting matters arising during the course of the audit and reviews.

### PART IV

## Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

- (a) (1) Financial Statements

The financial statements of the Company are set forth above in Item 8.

- (1) Schedules

The following financial statement schedules for the years ended June 30, 2012, 2011 and 2010 are submitted herewith:

### SCHEDULE II

#### RESERVES

*For the Years Ended June 30, 2012, 2011 and 2010*

Edgar Filing: FLEXSTEEL INDUSTRIES INC - Form 10-K

(in thousands) Description	Balance at Beginning of Year	(Additions) Reductions to Income	Additions to (Deductions from) Reserves	Balance at End of Year
Allowance for Doubtful Accounts:				
2012	\$ 2,000	\$ (150)	\$ 60	\$ 1,910
2011	\$ 2,020	\$ 870	\$ (890)	\$ 2,000
2010	\$ 1,760	\$ 920	\$ (660)	\$ 2,020

Other schedules are omitted because they are not required or are not applicable or because the required information is included in the financial statements.

## Edgar Filing: FLEXSTEEL INDUSTRIES INC - Form 10-K

- (3) Exhibit No.
- 3.1 Amended and Restated Articles of Incorporation of the Company (incorporated by reference to Form 8-K, as filed with the Securities and Exchange Commission on December 8, 2010).
- 3.2 Amended and Restated Bylaws of the Company (incorporated by reference to Form 8-K, as filed with the Securities and Exchange Commission on December 8, 2010).
- 10.1 1995 Stock Option Plan (incorporated by reference from the 1995 Flexsteel definitive proxy statement). \*
- 10.2 1999 Stock Option Plan (incorporated by reference from the 1999 Flexsteel definitive proxy statement). \*
- 10.3 Flexsteel Industries, Inc. Voluntary Deferred Compensation Plan (incorporated by reference to Exhibit No. 10.5 to the Annual Report on Form 10-K for the fiscal year ended June 30, 2001). \*
- 10.4 Flexsteel Industries, Inc. Restoration Retirement Plan (incorporated by reference to Exhibit No. 10.6 to the Annual Report on Form 10-K for the fiscal year ended June 30, 2001). \*
- 10.5 Flexsteel Industries, Inc. Senior Officer Supplemental Retirement Plan (incorporated by reference to Exhibit No. 10.7 to the Annual Report on Form 10-K for the fiscal year ended June 30, 2001). \*
- 10.6 2002 Stock Option Plan (incorporated by reference to Appendix A from the 2002 Flexsteel definitive proxy statement). \*
- 10.7 Agreement and Plan of Merger, dated as of August 12, 2003, by and among Flexsteel, Churchill Acquisition Corp. and DMI (incorporated by reference to Exhibit 99(d)(1) of Flexsteel Industries, Inc. s Tender Offer Statement on Schedule TO filed with the Securities and Exchange Commission on August 20, 2003).
- 10.8 Flexsteel Industries, Inc. 2006 Stock Option Plan (incorporated by reference to Appendix C from the 2006 Flexsteel Proxy Statement filed with the Securities and Exchange Commission on October 31, 2006).
- 10.9 Employment Agreement dated October 1, 2006 between Flexsteel Industries, Inc. and Donald D. Dreher (incorporated by reference to Exhibit 10.1 to Flexsteel s Form 8-K filed with the Securities and Exchange Commission on October 5, 2006). \*
- 10.10 Amendment to Employment Agreement dated June 27, 2008 between Flexsteel Industries, Inc. and Donald D. Dreher (incorporated by reference to Exhibit 10.3 to Flexsteel s Form 8-K filed with the Securities and Exchange Commission on June 27, 2008).\*
- 10.11 Flexsteel Industries, Inc. 2007 Long-Term Management Compensation Plan (incorporated by reference to Appendix C to the Definitive Proxy Statement on Schedule 14A filed with the Commission on November 1, 2007). \*
- 10.12 2009 Stock Option Plan (incorporated by reference to Appendix A from the 2009 Flexsteel definitive proxy statement). \*
- 10.13 One-Year Incentive Compensation Award for Karel K. Czanderna, dated July1, 2012 (incorporated by reference to Exhibit 4.1 of Flexsteel s Form S-8 filed with the Securities and Exchange Commission on August 20, 2012.)\*
- 10.14 Restricted Stock Unit Award Agreement for Karel K. Czanderna, dated July 1, 2012 (incorporated by reference to Exhibit 4.1 of Flexsteel s Form S-8 filed with the Securities and Exchange Commission on August 20, 2012.)\*
- 21.1 Subsidiaries of the Company. Filed herewith.
- 23 Consent of Independent Registered Public Accounting Firm. Filed herewith.
- 31.1 Certification. Filed herewith.
- 31.2 Certification. Filed herewith.
- 32 Certification by Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.
- 101.INS XBRL Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema Document.

Edgar Filing: FLEXSTEEL INDUSTRIES INC - Form 10-K

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.

101.LAB XBRL Taxonomy Extension Labels Linkbase Document.

101.DEF XBRL Taxonomy Extension Definition Linkbase Document.

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

\*Management contracts, compensatory plans and arrangements required to be filed as an exhibit to this report.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 22, 2012

FLEXSTEEL INDUSTRIES, INC.

By: */s/ Karel K. Czanderna*  
**Karel K. Czanderna**  
*Chief Executive Officer*  
and  
*Principal Executive Officer*

By: */s/ Timothy E. Hall*  
**Timothy E. Hall**  
*Chief Financial Officer*  
and  
*Principal Financial and Accounting Officer*

## Edgar Filing: FLEXSTEEL INDUSTRIES INC - Form 10-K

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date:	August 22, 2012	<i>/S/ Lynn J. Davis</i> Lynn J. Davis <i>Chairman of the Board of Directors</i>
Date:	August 22, 2012	<i>/S/ Jeffrey T. Bertsch</i> Jeffrey T. Bertsch <i>Director</i>
Date:	August 22, 2012	<i>/S/ Mary C. Bottie</i> Mary C. Bottie <i>Director</i>
Date:	August 22, 2012	<i>/S/ Patrick M. Crahan</i> Patrick M. Crahan <i>Director</i>
Date:	August 22, 2012	<i>/S/ Robert E. Deignan</i> Robert E. Deignan <i>Director</i>
Date:	August 22, 2012	<i>/S/ Thomas M. Levine</i> Thomas M. Levine <i>Director</i>
Date:	August 22, 2012	<i>/S/ Ronald J. Klosterman</i> Ronald J. Klosterman <i>Director</i>
Date:	August 22, 2012	<i>/S/ Robert J. Maricich</i> Robert J. Maricich <i>Director</i>
Date:	August 22, 2012	<i>/S/ Eric S. Rangen</i> Eric S. Rangen <i>Director</i>
Date:	August 22, 2012	<i>/S/ James R. Richardson</i> James R. Richardson <i>Director</i>
Date:	August 22, 2012	<i>/S/ Nancy E. Uridil</i> Nancy E. Uridil <i>Director</i>