

FLEXSTEEL INDUSTRIES INC
Form 10-Q
October 18, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

**Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2013

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)

Incorporated in State of Minnesota 42-0442319
(State or other Jurisdiction of (I.R.S. Identification No.)
Incorporation or Organization)

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385 BELL STREET

DUBUQUE, IOWA 52001-0877

(Address of Principal Executive Offices) (Zip Code)

(563) 556-7730

(Registrant's Telephone Number, Including Area Code)

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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 definition 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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Common Stock - \$1.00 Par Value

Shares Outstanding as of September 30, 2013 7,178,433

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

| | September 30, 2013 (UNAUDITED) | June 30, 2013 |
|-----------------------------------------------------------------------------------------------------|--------------------------------------|-------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash | \$ 10,625 | \$ 10,934 |
| Trade receivables – less allowances: | 38,926 | 36,075 |
| September 30, 2013, \$1,635; June 30, 2013, \$1,560 | | |
| Inventories | 97,131 | 92,417 |
| Deferred income taxes | 5,100 | 4,970 |
| Other | 4,908 | 4,805 |
| Total current assets | 156,690 | 149,201 |
| NON-CURRENT ASSETS: | | |
| Property, plant and equipment, net | 31,696 | 32,145 |
| Deferred income taxes | 1,420 | 1,190 |
| Other assets | 10,314 | 10,003 |
| TOTAL | \$ 200,120 | \$ 192,539 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable – trade | \$ 16,262 | \$ 13,927 |
| Accrued liabilities: | | |
| Payroll and related items | 5,762 | 7,836 |
| Insurance | 4,589 | 4,667 |
| Other | 12,829 | 9,072 |
| Total current liabilities | 39,442 | 35,502 |
| LONG-TERM LIABILITIES: | | |
| Supplemental retirement plans | 2,759 | 2,414 |
| Other liabilities | 3,523 | 3,386 |
| Total liabilities | 45,724 | 41,302 |
| SHAREHOLDERS' EQUITY: | | |
| Cumulative preferred stock – \$50 par value; authorized 60,000 shares; outstanding – none | | |
| Undesignated (subordinated) stock – \$1 par value; authorized 700,000 shares; outstanding – none | 7,178 | 7,107 |

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Common stock – \$1 par value; authorized 15,000,000 shares;
outstanding September 30, 2013, 7,178,433 shares;
outstanding June 30, 2013, 7,106,723 shares

| | | |
|--------------------------------------|------------|------------|
| Additional paid-in capital | 11,200 | 10,615 |
| Retained earnings | 137,298 | 134,606 |
| Accumulated other comprehensive loss | (1,280 |) (1,091) |
| Total shareholders' equity | 154,396 | 151,237 |
| TOTAL | \$ 200,120 | \$192,539 |

See accompanying Notes to Consolidated Financial Statements (Unaudited).

FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Amounts in thousands, except per share data)

| | Three Months Ended September 30, | |
|-------------------------------------------------------|-------------------------------------|----------|
| | 2013 | 2012 |
| NET SALES | \$104,348 | \$91,237 |
| COST OF GOODS SOLD | (80,703) | (70,136) |
| GROSS MARGIN | 23,645 | 21,101 |
| SELLING, GENERAL AND ADMINISTRATIVE | (18,209) | (16,710) |
| OPERATING INCOME | 5,436 | 4,391 |
| INTEREST AND OTHER INCOME | 502 | 161 |
| INCOME BEFORE INCOME TAXES | 5,938 | 4,552 |
| INCOME TAX PROVISION | (2,170) | (1,680) |
| NET INCOME | \$3,768 | \$2,872 |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING: | | |
| Basic | 7,125 | 6,938 |
| Diluted | 7,432 | 7,241 |
| EARNINGS PER SHARE OF COMMON STOCK: | | |
| Basic | \$0.53 | \$0.41 |
| Diluted | \$0.51 | \$0.40 |
| CASH DIVIDENDS DECLARED PER COMMON SHARE | \$0.15 | \$0.15 |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

| | Three Months Ended September 30, | |
|---------------------------------------------------------------------------------------|----------------------------------------|---------|
| | 2013 | 2012 |
| NET INCOME | \$3,768 | \$2,872 |
| OTHER COMPREHENSIVE (LOSS) INCOME: | | |
| UNREALIZED GAIN ON SECURITIES IN SUPPLEMENTAL RETIREMENT PLANS | 139 | 202 |
| RECLASSIFICATION OF REALIZED GAIN ON SUPPLEMENTAL RETIREMENT PLANS TO OTHER INCOME | (444) | (87) |
| OTHER COMPREHENSIVE (LOSS) INCOME BEFORE TAXES | (305) | 115 |
| INCOME TAX BENEFIT (EXPENSE) RELATED TO SUPPLEMENTAL RETIREMENT PLANS (LOSS) GAIN | 116 | (44) |
| OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAX | (189) | 71 |

| | | |
|----------------------|---------|---------|
| COMPREHENSIVE INCOME | \$3,579 | \$2,943 |
|----------------------|---------|---------|

See accompanying Notes to Consolidated Financial Statements (Unaudited).

FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Amounts in thousands)

| | Three Months Ended September 30, | |
|---------------------------------------------------------------------------------------------|----------------------------------------|----------|
| | 2013 | 2012 |
| OPERATING ACTIVITIES: | | |
| Net income | \$3,768 | \$2,872 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation | 1,011 | 792 |
| Deferred income taxes | (244) | (19) |
| Stock-based compensation expense | 151 | 312 |
| Excess tax benefit from stock based payment arrangements | (46) | — |
| Provision for losses on accounts receivable | 86 | 30 |
| Gain on disposition of capital assets | (5) | (1) |
| Changes in operating assets and liabilities: | | |
| Trade receivables | (2,937) | (2,221) |
| Inventories | (4,714) | (2,851) |
| Other current assets | (413) | (320) |
| Other assets | 17 | (81) |
| Accounts payable – trade | 2,445 | (1,295) |
| Accrued liabilities | 1,570 | (799) |
| Other long-term liabilities | 137 | (284) |
| Supplemental retirement plans | 417 | 348 |
| Net cash provided by (used in) operating activities | 1,243 | (3,517) |
| INVESTING ACTIVITIES: | | |
| Purchases of investments | (574) | (217) |
| Proceeds from sales of investments | 250 | 59 |
| Proceeds from sale of capital assets | 11 | 1 |
| Capital expenditures | (679) | (3,005) |
| Net cash used in investing activities | (992) | (3,162) |
| FINANCING ACTIVITIES: | | |
| Dividends paid | (1,066) | (1,036) |
| Proceeds from issuance of common stock | 460 | 273 |
| Excess tax benefit from stock based payment arrangements | 46 | — |
| Net cash used in financing activities | (560) | (763) |
| Decrease in cash | (309) | (7,442) |
| Cash at beginning of period | 10,934 | 13,970 |
| Cash at end of period | \$10,625 | \$6,528 |

| SUPPLEMENTAL INFORMATION | Three Months Ended | |
|------------------------------------------------------------|----------------------------|-------|
| CASH PAID DURING THE PERIOD FOR: (Amounts in thousands) | September 30, 2013 2012 | |
| Income taxes paid, net | \$278 | \$773 |
| Capital expenditures in accounts payable | 151 | 1,549 |

See accompanying Notes to Consolidated Financial Statements (Unaudited).

FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE PERIOD ENDED SEPTEMBER 30, 2013

The consolidated financial statements included herein have been prepared by Flexsteel Industries, Inc. and Subsidiaries (the “Company” or “Flexsteel”), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The information furnished in the consolidated financial statements includes normal recurring adjustments and reflects all adjustments, which are, in the opinion of management, necessary for a fair presentation of such consolidated financial statements. Operating results for the three-month period ended September 30, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending June 1, 2014. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. Except to the extent updated or described below, the significant accounting policies set forth in Note 1 to the consolidated financial statements in the Company’s Annual Report on Form 10-K for the year ended June 30, 2013, appropriately represent, in all material respects, the current status of accounting policies and are incorporated by reference.

ACCOUNTING DEVELOPMENTS – In February 2013, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2013-02, which requires additional disclosures on the effect of significant reclassifications out of accumulated other comprehensive income. The ASU requires a company that reports other comprehensive income to present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income. For other amounts that are not required to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference to other required disclosures that provide additional details about those amounts. This ASU is effective for fiscal years beginning after December 15, 2012, and was adopted by the Company on July 1, 2013. The Company’s adoption of this ASU resulted in additional disclosure within the Company’s consolidated statements of comprehensive income.

DESCRIPTION OF BUSINESS – 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 wood 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, healthcare and other commercial applications. A featured 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.

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The Company values inventory at the lower of cost or net realizable value. Raw steel is valued on the last-in, first-out (“LIFO”) method. Other inventories are valued on the first-in, first-out (“FIFO”) method. Inventories valued on the LIFO method would have been approximately \$1.6 million and \$1.7 million higher at September 30, 2013 and June 30, 2013, respectively, if they had been valued on the FIFO method. At September 30, 2013 and June 30, 2013 the total value of LIFO inventory was \$3.2 million and \$2.6 million, respectively. A comparison of inventories is as follows:

| (in thousands) | September 30, 2013 | June 30, 2013 |
|------------------------------------|--------------------------|------------------|
| Raw materials | \$ 11,226 | \$10,684 |
| Work in process and finished parts | 6,070 | 5,410 |
| Finished goods | 79,835 | 76,323 |
| Total | \$ 97,131 | \$92,417 |

3. FAIR VALUE MEASUREMENTS

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.

The Company maintains supplemental retirement plans, collectively referred to as the Supplemental Plan, which provides for additional annual defined contributions toward retirement benefits to certain of the Company's executive officers. Funds of the Supplemental Plan 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 September 30, 2013, the Company's Supplemental Plan assets, held in the Rabbi Trust, were invested in stock and bond funds and are recorded in the Consolidated Balance Sheets at fair market value. As of September 30, 2013, the Supplemental Plan Assets were \$5.5 million, with \$3.0 million of the Supplemental Plan assets classified as "Other Current Assets" and \$2.5 million as "Other Assets" in the Consolidated Balance Sheets. As of June 30, 2013, the Supplemental Plan assets were \$5.8 million, with \$3.3 million classified as "Other Current Assets" and \$2.5 million classified as "Other Assets" in the Consolidated Balance Sheets. These assets are classified as Level 2 in accordance with fair value accounting as described above.

4. CREDIT ARRANGEMENTS

The Company maintains a credit agreement which provides short-term working capital financing up to \$10.0 million with interest of LIBOR plus 1%, including up to \$4.0 million of letters of credit. Letters of credit outstanding at September 30, 2013 totaled \$2.7 million, leaving borrowing availability of \$7.3 million. The Company did not utilize any borrowing availability under the credit facility during the period other than the aforementioned letters of credit. The credit agreement expires June 30, 2014. At September 30, 2013, the Company was in compliance with all of the financial covenants contained in the credit agreement.

The Company maintains an unsecured \$8.0 million line of credit, with interest at prime minus 1%, and where its routine banking transactions are processed. The Company did not utilize any borrowing availability during the period and no amount was outstanding on the line of credit at September 30, 2013.

5. EARNINGS PER SHARE

Basic earnings per share (EPS) of common stock is based on the weighted-average number of common shares outstanding during each period. 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 is 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 period were the end of the contingency period.

In computing EPS for the quarters ended September 30, 2013 and 2012, net income as reported for each respective period is divided by the fully diluted weighted average number of shares outstanding:

| (in thousands) | September 30, | |
|--------------------------|---------------|-------|
| | 2013 | 2012 |
| Basic shares | 7,125 | 6,938 |
| Potential common shares: | | |
| Stock options | 294 | 272 |
| Long-term incentive plan | 13 | 31 |
| | 307 | 303 |
| Diluted shares | 7,432 | 7,241 |
| Anti-dilutive shares | — | — |

6.

LITIGATION

Indiana Civil Litigation – A Complaint for Damages and Injunctive Relief and Request for Jury Trial was filed on March 3, 2011 in Elkhart, Indiana Superior Court by Leo VanNorman, et al, plaintiffs vs. Flexsteel Industries, Inc., et al, defendants. The complaint alleges that the source of groundwater contamination underneath plaintiffs’ current or former residences is two adjacent properties, in Elkhart, Indiana, once owned by the Company. The VanNorman case is set for a Phase 1 trial in May 2014 on the issue of cause or contribution to the Elkhart contamination. A subsequent Complaint for Damages under RICO and RPTL, and Injunctive Relief under RCRA, titled Dennis and Darlene Knoll, et al, vs. Flexsteel Industries, Inc., et al, was filed on May 5, 2012 in United States District Court Northern District of Indiana South Bend Division by a subgroup of the state court plaintiffs, as well as the current owner of one of the properties once owned by the Company. The District Court dismissed one of the two RCRA claims in March 2013, and dismissed both RICO claims in June 2013. One RCRA claim and a RPTL claim remain pending in the Knoll case. Relief sought in these complaints includes payment to Plaintiffs for their damages and attorneys’ fees and costs, payment to remove the contamination, payment for medical monitoring, and punitive damages. Based on policy language and jurisdiction, insurance coverage is in question. Flexsteel has filed an appeal to the Iowa Supreme Court regarding two adverse opinions of an Iowa District Court regarding coverage issues. The Company does not believe that it caused or contributed to the contamination.

Plaintiffs have not identified a dollar amount of their alleged damages. Therefore, 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 September 30, 2013 financial statements. During the quarters ended September 30, 2013 and 2012, legal and other related expenses of \$1.0 million and \$0.6 million, respectively, have been incurred responding to the state and federal lawsuits, as well as in pursuing insurance coverage. These costs 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 2. 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 quarterly report on Form 10-Q.

CRITICAL ACCOUNTING POLICIES:

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", included in our 2013 annual report on Form 10-K.

Overview

The following table has been prepared as an aid in understanding the Company's results of operations on a comparative basis for the three months ended September 30, 2013 and 2012. Amounts presented are percentages of the Company's net sales.

| | Three Months Ended September 30, | |
|-------------------------------------|----------------------------------------|---------|
| | 2013 | 2012 |
| Net sales | 100.0% | 100.0% |
| Cost of goods sold | (77.3) | (76.9) |
| Gross margin | 22.7 | 23.1 |
| Selling, general and administrative | (17.5) | (18.3) |
| Operating income | 5.2 | 4.8 |
| Other income | 0.5 | 0.2 |
| Income before income taxes | 5.7 | 5.0 |
| Income tax expense | (2.1) | (1.8) |
| Net income | 3.6 % | 3.2 % |

The following table compares net sales in total and by area of application for the quarter ended September 30, 2013 to the prior year quarter.

| Area of Application | Net Sales (in thousands) | | \$ Change | |
|---------------------|----------------------------------------|--------|-------------------|-------------|
| | Quarter Ended September 30, 2013 | 2012 | (in thousands) | % Change |
| Residential | 84,000 | 72,330 | \$ 11,670 | 16.1 % |
| Commercial | 20,348 | 18,907 | 1,441 | 7.6 % |
| Total | 104,348 | 91,237 | \$ 13,111 | 14.4 % |

Results of Operations for the Quarter Ended September 30, 2013 vs. 2012

Net sales for the quarter ended September 30, 2013 were \$104.3 million, a 14.4% increase compared to \$91.2 million in the prior year quarter. Residential net sales were \$84.0 million in the current quarter, an increase of 16.1% from the prior year quarter of \$72.3 million, primarily due to increased sales of upholstered and ready to assemble products. Commercial net sales were approximately \$20.3 million in the current quarter, an increase of 7.6% compared to \$18.9 million in the prior year.

Gross margin as a percent of sales for the quarter ended September 30, 2013 was 22.7% compared to 23.1% in the prior year quarter. The decrease of 0.4% is primarily due to changes in product mix and price discounting on certain traditional case goods to improve operating efficiency. The discounting may continue for the remainder of the fiscal year as we realign inventory to focus on growth opportunities.

Selling, general and administrative expenses were \$18.2 million or 17.5% of net sales, compared to \$16.7 million or 18.3% of net sales in the prior year quarter ended September 30, 2012. The percentage decrease reflects fixed cost leverage on higher sales volume offset by increased legal costs of \$0.4 million related to an Indiana civil lawsuit. In addition, the prior year quarter included approximately \$0.5 million of executive transition costs.

Operating income for the first quarter ended September 30, 2013 was \$5.4 million compared to operating income of \$4.4 million.

The effective income tax expense rate for the current three-month period was 36.5% compared to an income tax expense rate of 36.9% in the prior year three-month period. The effective rates include the federal statutory rate as well as the effect of the various state taxing jurisdictions.

The above factors resulted in net income for the three months ended September 30, 2013 of \$3.8 million or \$0.51 per share compared to \$2.9 million or \$0.40 per share for the prior year quarter. All earnings per share amounts are on a diluted basis.

Liquidity and Capital Resources

Working capital (current assets less current liabilities) at September 30, 2013 was \$117.2 million compared to \$113.7 million at June 30, 2013. Changes in working capital from June 30, 2013 to September 30, 2013 include increases in inventory of \$4.7 million, accounts receivable of \$2.9 million, and current liabilities of \$3.9 million. The higher inventory levels support increased residential sales volume and expanded product offerings. The accounts receivable increase is primarily due to higher sales volume in the current quarter and the timing of collections.

The Company's main source of liquidity is cash and cash flows from operations. As of September 30, 2013 and June 30, 2013, the Company had cash totaling \$10.6 million and \$10.9 million, respectively. The Company maintains a credit agreement which provides short-term working capital financing up to \$10.0 million with interest of LIBOR plus 1%, including up to \$4.0 million of letters of credit. Letters of credit outstanding at September 30, 2013 totaled \$2.7 million, leaving borrowing availability of \$7.3 million. The Company did not utilize any borrowing availability under the credit facility during the period other than the aforementioned letters of credit. The credit agreement expires June 30, 2014. At September 30, 2013, the Company was in compliance with all of the financial covenants contained in the credit agreement.

The Company maintains an unsecured \$8.0 million line of credit, with interest at prime minus 1%, and where its routine banking transactions are processed. The Company did not utilize any borrowing availability during the period and no amount was outstanding on the line of credit at September 30, 2013.

Cash decreased by \$0.3 million during the first fiscal quarter of 2014 with net cash provided by operating activities of \$1.2 million, capital expenditures of \$0.7 million and payment of dividends of \$1.1 million.

Net cash provided by operating activities of \$1.2 million in the first quarter ended September 30, 2013 was comprised primarily of net income of \$3.8 million, changes in operating assets and liabilities of \$3.5 million and non-cash charges of \$0.9 million.

Net cash used in investing activities was \$0.8 million and \$3.2 million in the quarters ended September 30, 2013 and 2012, respectively. Net purchases of investments were \$0.3 million for the quarter ended September 30, 2013 versus \$0.2 million in the prior year quarter. Capital expenditures were \$0.7 million and \$3.0 million during the quarters ended September 30, 2013 and 2012, respectively.

Net cash used in financing activities was \$0.6 million and \$0.8 million in the quarters ended September 30, 2013 and 2012, respectively, primarily for the payment of dividends of \$1.1 million compared to \$1.0 million in the quarters ended September 30, 2013 and 2012, respectively.

The Company expects that capital expenditures for the remainder of fiscal year 2014 will be approximately \$3.5 million primarily for delivery and manufacturing equipment and information technology infrastructure. Management believes that the Company has adequate cash, cash flows from operations and credit arrangements to meet its operating and capital requirements for fiscal year 2014. 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.

Contractual Obligations

As of September 30, 2013, there have been no material changes to our contractual obligations presented in our Annual Report on Form 10-K for the year ended June 30, 2013.

Outlook

The Company believes that top line growth will continue through the end of fiscal year 2014. Residential growth is expected to continue with existing customers and products, and through expanding our product portfolio and customer base. The Company expects this growth to be led by increased demand for upholstered and ready to assemble products. The Company anticipates sales of commercial products to moderately increase for the remainder of the fiscal year. The Company is confident in its ability to take advantage of market opportunities.

The Company remains committed to its core strategies, which include a wide range of quality product offerings 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 through emphasis on cash flow and increasing profitability. We believe these core strategies are in the best interest of our shareholders.

Item 3. 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 the quarter ended September 30, 2013 and 2012, the Company did not have sales, purchases, or other expenses denominated in foreign currencies. As such, the Company is not exposed to material 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 September 30, 2013, the Company does not have any debt outstanding.

Item 4. Controls and Procedures

(a) *Evaluation of disclosure controls and procedures.* Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective as of September 30, 2013.

(b) *Changes in internal control over financial reporting.* During the quarter ended September 30, 2013, there were no significant changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended) that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

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 Quarterly Report on Form 10-Q, 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 our most recent 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.

PART II OTHER INFORMATION

Item 1A. Risk Factors

There has been no material change in the risk factors set forth under Part 1, Item 1A “Risk Factors” in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2013.

Item 6. Exhibits

31.1 Certification

31.2 Certification

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.

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

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

SIGNATURES

Pursuant to the requirements 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.

FLEXSTEEL INDUSTRIES, INC.

Date: October 18, 2013 By: */s/ Timothy E. Hall*
Timothy E. Hall
Chief Financial Officer
(Principal Financial & Accounting Officer)