

FLEXSTEEL INDUSTRIES INC  
Form 10-Q  
April 22, 2014

**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 March 31, 2014

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)

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

o.

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 March 31, 2014 7,311,756

---

## 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)

	March 31, 2014 (UNAUDITED)	June 30, 2013
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 17,305	\$ 10,934
Trade receivables less allowances: March 31, 2014, \$1,479; June 30, 2013, \$1,560	40,393	36,075
Inventories	92,100	92,417
Deferred income taxes	4,380	4,970
Other	2,729	4,805
Total current assets	156,907	149,201
<b>NON-CURRENT ASSETS:</b>		
Property, plant and equipment, net	32,637	32,145
Deferred income taxes	2,090	1,190
Other assets	10,466	10,003
<b>TOTAL</b>	<b>\$ 202,100</b>	<b>\$ 192,539</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable trade	\$ 13,625	\$ 13,927
Accrued liabilities:		
Payroll and related items	8,366	7,836
Insurance	5,024	4,667
Other	7,581	9,072
Total current liabilities	34,596	35,502
<b>LONG-TERM LIABILITIES:</b>		
Supplemental retirement plans	3,344	2,414
Other liabilities	3,959	3,386
Total liabilities	41,899	41,302
<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 March 31, 2014,  
7,311,756 shares;  
outstanding June 30, 2013,  
7,106,723 shares

	7,312	7,107
Additional paid-in capital	13,684	10,615
Retained earnings	140,707	134,606
Accumulated other comprehensive loss	(1,502 )	(1,091 )
Total shareholders' equity	160,201	151,237
TOTAL	\$ 202,100	\$ 192,539

See accompanying Notes to Consolidated Financial Statements (Unaudited).

1

FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)  
(Amounts in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
NET SALES	\$110,532	\$98,351	\$327,414	\$284,178
COST OF GOODS SOLD	(85,488)	(75,512)	(252,666)	(217,491)
GROSS MARGIN	25,044	22,839	74,748	66,687
SELLING, GENERAL AND ADMINISTRATIVE LITIGATION SETTLEMENT COSTS	(18,455)	(17,971)	(55,014)	(52,831)
OPERATING INCOME	6,589	4,868	13,484	13,856
INTEREST AND OTHER INCOME	471	140	1,394	365
INCOME BEFORE INCOME TAXES	7,060	5,008	14,878	14,221
INCOME TAX PROVISION	(2,640)	(1,890)	(5,520)	(5,310)
NET INCOME	\$4,420	\$3,118	\$9,358	\$8,911
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:				
Basic	7,265	7,090	7,198	7,019
Diluted	7,675	7,408	7,546	7,297
EARNINGS PER SHARE OF COMMON STOCK:				
Basic	\$0.61	\$0.44	\$1.30	\$1.27
Diluted	\$0.58	\$0.42	\$1.24	\$1.22
DIVIDENDS DECLARED PER COMMON SHARE	\$0.15	\$0.15	\$0.45	\$0.45

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)  
(Amounts in thousands)

	Three Months Ended		Nine Months Ended	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
NET INCOME	\$4,420	\$3,118	\$9,358	\$8,911
OTHER COMPREHENSIVE (LOSS) INCOME:				
UNREALIZED GAIN ON SECURITIES IN SUPPLEMENTAL RETIREMENT PLANS	67	185	574	114
RECLASSIFICATION OF REALIZED (GAIN) LOSS ON SUPPLEMENTAL RETIREMENT PLANS TO OTHER INCOME	(431)	65	(1,238)	157
OTHER COMPREHENSIVE (LOSS) INCOME BEFORE TAXES	(364)	250	(664)	271
INCOME TAX BENEFIT (EXPENSE) RELATED TO SUPPLEMENTAL RETIREMENT PLANS (LOSS) GAIN	138	(95)	253	(103)
OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAX	(226)	155	(411)	168
COMPREHENSIVE INCOME	\$4,194	\$3,273	\$8,947	\$9,079

See accompanying Notes to Consolidated Financial Statements (Unaudited).



FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)  
(Amounts in thousands)

	Nine Months Ended March 31, 2014    2013	
<b>OPERATING ACTIVITIES:</b>		
Net income	\$9,358	\$8,911
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	3,088	2,792
Deferred income taxes	(57 )	(68 )
Stock-based compensation expense	1,135	1,119
Excess tax benefit from stock-based payment arrangements	(425 )	
Provision for losses on accounts receivable	1	120
Gain on disposition of capital assets	(22 )	(20 )
Changes in operating assets and liabilities:		
Trade receivables	(4,319 )	(3,516 )
Inventories	317	(3,343 )
Other current assets	(558 )	(908 )
Other assets	109	(53 )
Accounts payable - trade	(61 )	1,419
Accrued liabilities	2,134	(754 )
Supplemental retirement plans	312	569
Other long-term liabilities	573	(90 )
Net cash provided by operating activities	11,585	6,178
<b>INVESTING ACTIVITIES:</b>		
Purchases of investments	(4,285 )	(844 )
Proceeds from sales of investments	3,957	166
Proceeds from sale of capital assets	31	20
Capital expenditures	(3,830 )	(5,652 )
Net cash used in investing activities	(4,127 )	(6,310 )
<b>FINANCING ACTIVITIES:</b>		
Dividends paid	(3,226 )	(3,148 )
Proceeds from issuance of common stock	1,714	1,047
Excess tax benefit from stock-based payment arrangements	425	
Net cash used in financing activities	(1,087 )	(2,101 )
Increase (decrease) in cash	6,371	(2,233 )
Cash at beginning of period	10,934	13,970
Cash at end of period	\$17,305	\$11,737

**SUPPLEMENTAL INFORMATION**

(Amounts in thousands)

Edgar Filing: FLEXSTEEL INDUSTRIES INC - Form 10-Q

Nine Months  
Ended  
March 31,  
2014 2013

Income taxes paid, net	\$4,990	\$6,120
Capital expenditures in accounts payable	20	60

See accompanying Notes to Consolidated Financial Statements (Unaudited).

3

---



FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE PERIOD ENDED MARCH 31, 2014

1. 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 and nine month periods ended March 31, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 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.

## 2. INVENTORIES

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 \$1.5 million and \$1.7 million higher at March 31, 2014 and June 30, 2013, respectively, if they had been valued on the FIFO method. At March 31, 2014 and June 30, 2013, the total value of LIFO inventory was \$2.9 million and \$2.6 million, respectively. A comparison of inventories is as follows:

(in thousands)	March	
	31, 2014	June 30, 2013
Raw materials	\$11,028	\$10,684
Work in process and finished parts	5,479	5,410
Finished goods	75,593	76,323
Total	\$92,100	\$92,417

---

4

### 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 March 31, 2014, 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 March 31, 2014, the Supplemental Plan Assets were \$3.7 million, with \$0.6 million of the Supplemental Plan assets classified as Other Current Assets and \$3.1 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 March 31, 2014 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 on June 30, 2014. At March 31, 2014, 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 2%, with a maturity date of February 13, 2015 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 March 31, 2014.

### 5. STOCK-BASED COMPENSATION

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

#### (1) Long-Term Incentive Compensation Plans

##### Long-Term Incentive Compensation Plan

The long-term incentive compensation plan provides for shares of common stock 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). In December 2013, the Company's shareholders approved 700,000 shares to be

issued under the plan. As of March 31, 2014, no shares have been issued. The Committee selected fully-diluted earnings per share as the performance goal for the three-year performance period July 1, 2013 – June 30, 2016. 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 Company recorded expense of \$0.1 million for the quarter ended March 31, 2014. For the nine month period ended March 31, 2014 the Company has recorded expense of \$0.3 million. If the target performance goals would be achieved, the total amount of compensation cost recognized over the requisite service periods (2014-2016) would be \$1.1 million.