FLEXSTEEL INDUSTRIES INC
Form 10-K
August 26, 2009

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

Form 10-K

x Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended **June 30, 2009**
or
o 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	**42-0442319**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3400 Jackson Street, Dubuque, Iowa	**52004-0877**
(Address of principal executive offices)	(Zip Code)
Registrant s telephone number, including area 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 o No x

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 o No x

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 x No o

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 o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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 o Accelerated filer o Non-accelerated filer o 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 o 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, 2008 (which was the last business day of the registrant s most recently completed second quarter) was $26,794,561.

Indicate the number of shares outstanding of each of the registrant s classes of Common Stock, as of the latest practicable date. 6,576,373 Common Shares ($1 par value) as of August 26, 2009.

DOCUMENTS INCORPORATED BY REFERENCE

In Part III, portions of the registrant s 2009 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, the effectiveness of new product introductions and distribution channels, the product mix of sales, pricing pressures, the cost of raw materials and fuel, foreign currency valuations, actions by governments including taxes and tariffs, inflation, the amount of sales generated and the profit margins thereon, competition (both foreign and domestic), changes in interest rates, credit exposure with customers 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, recreational vehicle and commercial upholstered and wooden furniture products in the country. 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, motor home, travel trailer, yacht, pontoon, health care and hotel 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 to furniture dealers, department stores, recreational vehicle manufacturers, catalogs and hospitality and healthcare facilities. 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, manufacturer, importer and marketer of residential and commercial office furniture with manufacturing and 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 operating 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, recreational vehicle, 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,		
	2009	**2008**	**2007**
Residential	$ 230,727	$ 258,084	$ 259,710
Recreational Vehicle	16,197	56,090	66,165
Commercial	77,234	91,481	99,525
	$ 324,158	$ 405,655	$ 425,400

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, Indiana, 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 domestic and foreign manufacturers and distributors, none of which dominates the market. The competition has increased from foreign manufacturers, in countries such as China, which have lower production costs, and through direct importing by certain large retailers. The markets in which we compete include a large number of relatively small manufacturers; however, certain competitors have substantially greater sales volumes and financial resources 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, 2009, the Company had 76 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):

June 30, 2009	**June 30, 2008**	**June 30, 2007**
$35,200	$45,700	$50,900

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 domestic and offshore, 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. Tariffs are a possibility on any imported or exported products.

Government Regulations

The Company is subject to various local, state, and federal laws, regulations and agencies that affect businesses generally. These include regulations promulgated by federal and state environmental and health agencies, the federal Occupational Safety and Health Administration, and laws pertaining to the hiring, treatment, safety, and discharge of employees.

Environmental Matters

The Company is subject to environmental laws and regulations with respect to product content and industrial waste. Compliance with these laws and regulations has not had a material impact on our capital expenditures, earnings, or competitive position.

Trademarks, Patents and Licenses

The Company owns the American and Canadian improvement patents to its Flexsteel seat spring, as well as patents on convertible beds and various other recreational vehicle seating products. The Company owns certain trademarks in connection with its furniture products, which trademarks are due to expire on dates ranging from 2011 to 2020. The Company does not consider its trademarks, patents and licenses 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):

Fiscal Year Ended June 30,	Expenditures
2009	$2,680
2008	$3,130
2007	$3,270

Employees

The Company had approximately 1,400 employees as of June 30, 2009 including approximately 300 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. 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 or by writing to the Office of the Secretary, Flexsteel Industries, Inc., P. O. Box 877, Dubuque, IA 52004-0877.

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.

The current economic downturn could continue to result in a decrease in our sales and earnings.

The current economic downturn has caused a decrease in our sales and earnings, particularly in recreational vehicle product applications. This economic downturn has and will likely continue to affect near-term consumer-spending habits by decreasing the overall demand for home furnishings, recreational vehicles and commercial products. Interest rates, consumer confidence, fuel costs, credit availability, unemployment levels, housing starts, and geopolitical factors that affect many other businesses are particularly significant to our business because many of our products are discretionary consumer goods.

We may lose market share due to competition, which would decrease our future sales and earnings.

The furniture industry is very competitive and fragmented. We compete with many domestic and foreign manufacturers and distributors. Some competitors have greater financial resources than we have and some often offer extensively advertised, well-recognized, branded products. Additionally, competition from foreign producers has increased dramatically in the past few years. These foreign producers typically have lower selling prices due to their lower operating costs. As a result, we may not be able to maintain or to raise the prices of our products in response to such 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 differentiate our products (through styling, finish and other construction techniques) from those of our competitors. Large retail furniture dealers have the ability to obtain offshore sourcing on their own. As a result, we are continually subject to the risk of losing market share, which may lower our sales and earnings.

Our offshore capabilities provide flexibility in product offerings and pricing to meet competitive pressures, but this approach may adversely affect our ability to service customers, which could lower future sales and earnings.

We acquire a portion of our finished goods and components used in our manufacturing operations from foreign vendors. These vendors are located primarily in Southeast Asia. The delivery of goods from these vendors may be delayed for reasons not typically encountered with U.S. suppliers including shipment delays caused by customs, dockworker labor issues, changes in political, economic and social conditions, laws and regulations. This could make it more difficult to service our customers resulting in lower sales and earnings.

Efforts to realign manufacturing could decrease our near-term earnings.

We continually review our manufacturing operations and offshore sourcing capabilities. As a result, we sometimes realign those operations and capabilities and institute cost savings programs. These programs can include the consolidation and integration of facilities, functions, systems and procedures. We also may shift certain products to or from domestic manufacturing to offshore sourcing. These realignments and cost savings programs generally involve some initial cost and can result in decreases in our near-term earnings until we achieve the expected cost reductions. We may not always accomplish these actions as quickly as anticipated, and we may not fully achieve the expected cost reductions.

If we experience fluctuations in the price, availability and quality of raw materials, this could cause manufacturing delays, adversely affect our ability to provide goods to our customers and increase our costs, any of which could decrease our sales and earnings.

We use various types of wood, fabrics, leathers, upholstered filling material, high carbon spring steel, bar and wire stock and other raw materials in manufacturing furniture. Because we are dependent on outside suppliers for all of our raw material needs, we must obtain sufficient quantities of quality raw materials from our suppliers at acceptable prices and in a timely manner. We do not utilize long-term supply contracts with our suppliers. Unfavorable fluctuations in the price, quality and availability of these raw materials could negatively affect our ability to meet demands of our customers and have a negative impact on product margin. The inability to meet our customers demands could result in the loss of future sales, and we may not always be able to pass along price increases to our customers due to competitive and marketing pressures.

If we experience the loss of large customers through business failures (or for other reasons) or any extended business interruptions at our manufacturing facilities, this could decrease our future sales and 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.

Although we have no customers that individually represent 10% or more of our net sales, the possibility of business failures by, or the loss of, large customers could decrease our future sales and earnings. Lost sales may be difficult to replace and any amounts owed to us may become uncollectible. Our inability to fill customer orders during an extended business interruption could negatively impact existing customer relationships resulting in market share decreases.

Furniture is a styled product and is subject to rapidly changing consumer trends and tastes and upholstered furniture 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.

At times it is necessary we discontinue certain relationships with customers (retailers, O.E.M. manufacturers and others) who do not meet our growth, credit or profitability standards. Until realignment is established, there can be a decrease in near-term sales and earnings. We continually review relationships with our customers and future realignments are possible based upon such ongoing reviews.

We are, and may in the future be, a party to legal proceedings and claims, including those involving product liability or environmental matters, some of which claim significant damages and could adversely affect our business, operating results and financial condition.

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 maintain insurance against product liability claims, but there can be no assurance such coverage will continue to be available on terms acceptable to us or that such coverage will be adequate for liabilities actually incurred.

Given the inherent uncertainty of litigation, we can offer no assurance future litigation will not have a material adverse impact on our business, operating results or financial condition. We are also subject to various laws and regulations relating to environmental protection and the discharge of materials into the environment and we could incur substantial costs as a result of the noncompliance with, or liability for cleanup or other costs or damages under, environmental laws.

We may engage in acquisitions and investments in businesses, which could dilute our earnings per share and decrease the value of our common stock.

As part of our business strategy, we may make acquisitions and investments in businesses that offer complementary products. Risks commonly encountered in acquisitions include the possibility that we pay more than the acquired company or assets are worth, the difficulty of assimilating the operations and personnel of the acquired business, the potential disruption of our ongoing business and the distraction of our management from ongoing business. Consideration paid for future acquisitions could be in the form of cash or stock or a combination thereof. Dilution to existing stockholders and to earnings per share may result in connection with any such future acquisition.

Restrictive covenants in our existing credit facilities may restrict our ability to pursue our business strategies.

Our existing credit facilities limit our ability, among other things, to: incur additional indebtedness; merge, sell or otherwise dispose of all or substantially all of our assets; and create liens.

The restrictions contained in our credit facilities could: limit our ability to plan for or react to market conditions or meet capital needs or otherwise restrict our activities or business plans; and adversely affect our ability to finance our operations, strategic acquisitions, investments or alliances or other capital needs or to engage in other business activities that would be in our best interest.

A breach of any of these restrictive covenants or our inability to comply with the required financial ratios could result in a default under our credit facilities. If a default occurs, the lender under our credit agreement may elect to declare all borrowings outstanding, together with accrued interest and other fees, to be immediately due and payable which would result in an event of default under our outstanding notes. The lender will also have the right in these circumstances to terminate any commitments they have to provide further borrowings. If we are unable to repay outstanding borrowings when due, the lender will also have the right to initiate collection proceedings against us.

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

We employ approximately 1,400 people, 20% of whom are covered by union contracts. Where a significant portion of our workers are unionized, our ability to implement productivity improvements and effect savings with respect to health care, pension and other retirement costs is more restricted than in many nonunion operations as a result of various restrictions specified in our 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.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company owns the following facilities as of June 30, 2009:

Location	Approximate Size (square feet)	Principal Operations
Dubuque, Iowa	853,000	Manufacturing, Warehouse and Corporate Offices
Lancaster, Pennsylvania	216,000	Warehouse
Riverside, California	236,000	Manufacturing
	69,000	Warehouse
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	612,000	Warehouse
	79,000	Manufacturing

The Company leases the following facilities as of June 30, 2009:

Location	Approximate Size (square feet)	Principal Operations
Vancouver, Washington	16,000	Warehouse
Louisville, Kentucky	15,000	Administrative Offices
Ferdinand, Indiana	158,000	Warehouse
Juarez, Mexico	48,000	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 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

From time to time, the Company is subject to various 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 proceedings that are currently pending, individually or in the aggregate, to be material to its business or likely to result in a material adverse effect on its consolidated operating results, financial condition, or cash flows.

Item 4. Submission of Matters to a Vote of Security Holders

During the quarter ended June 30, 2009 no matter was submitted to a vote of security holders.

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., Interface Inc., 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, 2004

	2004	2005	2006	2007	2008	2009
Flexsteel	100.00	62.81	59.26	68.64	55.49	43.36
Peer Group	100.00	90.14	98.61	94.53	66.96	33.43
NASDAQ	100.00	101.09	107.64	129.93	115.40	93.33

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

	Sale Price of Common Stock *				Cash Dividends Per Share	
	Fiscal 2009		Fiscal 2008			
	High	Low	High	Low	Fiscal 2009	Fiscal 2008
First Quarter	$ 12.18	$ 9.50	$ 14.75	$ 12.92	$ 0.13	$ 0.13
Second Quarter	10.99	6.68	14.86	11.60	0.13	0.13
Third Quarter	7.96	5.11	14.50	11.00	0.05	0.13
Fourth Quarter	9.00	4.98	13.98	11.01	0.05	0.13

* 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, 2009.

There were no repurchases of the Company s common stock during the quarter ended June 30, 2009.

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 statement of operations 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)

	2009	2008	2007	2006	2005
SUMMARY OF OPERATIONS					
Net sales	$ 324,158	$ 405,655	$ 425,400	$ 426,408	$ 410,023
Cost of goods sold	263,083	327,165	344,177	345,068	334,978
Operating (loss) income	(2,272)	7,596	14,699	8,561	7,258
Interest and other income	661	469	1,277	775	628
Interest expense	969	1,468	1,491	1,557	990
(Loss) income before income taxes	(2,579)	6,596	14,484	7,778	6,896
Income tax (benefit) provision (5)	(1,070)	2,360	5,150	3,060	1,990
Net (loss) income (1) (2) (3) (4) (5)	(1,509)	4,236	9,334	4,718	4,906
(Loss) earnings per common share: (1) (2) (3) (4) (5)					
Basic	(0.23)	0.64	1.42	0.72	0.75
Diluted	(0.23)	0.64	1.42	0.72	0.74
Cash dividends declared per common share	$ 0.36	$ 0.52	$ 0.52	$ 0.52	$ 0.52
SELECTED DATA AS OF JUNE 30					
Average common shares outstanding:					
Basic	6,576	6,574	6,568	6,558	6,531
Diluted	6,576	6,611	6,583	6,577	6,601
Total assets	$ 150,971	$ 179,906	$ 185,014	$ 184,176	$ 165,221
Property, plant and equipment, net	23,298	26,372	28,168	24,158	26,141
Capital expenditures	1,203	1,228	10,839	3,411	3,347
Long-term debt		20,811	21,336	21,846	12,800
Working capital (current assets less current liabilities)	78,416	100,920	97,902	95,551	83,952
Shareholders equity	$ 106,998	$ 112,752	$ 112,679	$ 106,066	$ 103,361
SELECTED RATIOS					
Net (loss) income, as a percent of sales	(0.5)	1.0	2.2	1.1	1.2
Current ratio	3.2 to 1	3.5 to 1	3.2 to 1	2.9 to 1	3.0 to 1
Return on ending shareholders equity, as a percent of sales	(1.4)	3.8	8.3	4.5	4.8
Average number of employees	1,600	2,140	2,290	2,400	2,460

(1) 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.

(2) Fiscal 2007 net income and per share amounts reflect the net gain (after tax) on sale of building of approximately $2.5 million or $0.37 per share, the gain on life insurance of $0.6 million or $0.08 per share and the net gain (after tax) on the sale of vacant land of approximately $0.2 million or $0.04 per share.

(3) Fiscal 2009, 2008, 2007 and 2006 net (loss) income and per share amounts reflect the recording of stock-based compensation expense, as required by Statement of Financial Accounting Standard No. 123 (Revised), of $0.1 million, $0.1 million, $0.2 million and $0.4 million (after tax), respectively, or $0.02 per share, $0.02 per share, $0.04 per share and $0.06 per share, respectively.

(4) Fiscal 2005 net income and per share amounts reflect a net gain (after tax) on the sale of facilities of approximately $0.5 million or $0.08 per share.

(5) During Fiscal 2005, an examination by the Internal Revenue Service of the Company s federal income tax returns for the fiscal years ended June 30, 2004 and 2005 was completed. Due to the favorable settlement results, the Company reduced its estimate of accrued tax liabilities by $0.7 million. The decrease resulted in an income tax rate of 30.6% for the fiscal year ended June 30,

2005.

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 collectibility of trade accounts receivable, inventory valuation, depreciable lives, self-insurance programs, warranty costs and income taxes. 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 fair value due to their short-term nature. The amount ultimately realized from trade accounts receivable may differ from the amount estimated in the consolidated financial statements based on collection experience and actual returns and allowances.

Inventories the Company values inventory at the lower of cost or market. A large portion of our finished goods inventory is made to order and many of our raw material parts are interchangeable between products. Management assesses the inventory on hand and if necessary writes down the obsolete or excess inventory to market.

Revenue recognition is upon delivery of product to our customer and when collectibility 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, 2009, 2008 and 2007. Amounts presented are percentages of the Company s net sales.

	FOR THE YEARS ENDED JUNE 30,		
	2009	**2008**	**2007**
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	(81.2)	(80.7)	(80.9)
Gross margin	18.8	19.3	19.1
Selling, general and administrative	(18.8)	(17.5)	(16.7)
Facility consolidation and other charges	(0.8)		
Gain on sale of land and building			1.0
Operating (loss) income	(0.8)	1.8	3.4
Other expense, net	0.0	(0.2)	0.0
(Loss) income before income taxes	(0.8)	1.6	3.4
Income tax benefit (provision)	0.3	(0.6)	(1.2)
Net (loss) income	(0.5)%	1.0%	2.2%

Fiscal 2009 Compared to Fiscal 2008

Net sales for the fiscal year ended June 30, 2009 were $324.2 million compared to $405.7 million in the prior fiscal year, a decrease of 20.1%. Residential net sales were $230.7 million compared to $258.1 million in the fiscal year ended June 30, 2008, a decrease of 10.6%. Commercial net sales were $77.2 million for the fiscal year ended June 30, 2009, a decrease of 15.6% from net sales of $91.5 million for the fiscal year ended June 30, 2008. Recreational vehicle net sales were $16.2 million for the fiscal year ended June 30, 2009, a decrease of 71.1% from $56.1 million for the fiscal year ended June 30, 2008.

The recreational vehicle industry continues to be the hardest hit product category with the initial impact of high fuel costs compounded by credit tightening and lack of consumer confidence in the economy as a whole. Recreational vehicle industry published data indicates that motor home unit sales, the sector that encompasses the majority of our sales, are down nearly 80%. The commercial seating product category held up well early in our fiscal year, but fell considerably as the U. S. economy contracted and credit tightened. We believe that our residential product category has performed reasonably well in relation to our competition. However, residential furniture remains a deferrable purchase item and is adversely impacted by tighter consumer credit, higher unemployment and low levels of consumer confidence.

Gross margin for the fiscal years ended June 30, 2009 and 2008 was 18.8% and 19.3%, respectively. The decrease in gross margin percentage for the year is primarily due to an approximate $2.0 million adjustment to realizable value on inventory and to a lesser extent to under-utilization of capacity on significantly lower sales volume. These factors were partially offset by a LIFO benefit increase of approximately $0.6 million.

Selling, general and administrative expenses were 18.8% and 17.5% of net sales for the fiscal years ended June 30, 2009 and 2008, respectively. The percentage increase in selling, general and administrative costs is primarily due to under-absorption of fixed costs on the lower sales volume and the lag time in reducing advertising and other sales support costs to the lower volume.

The Company recorded $2.6 million in facility consolidation and employee separation costs during fiscal year 2009. These costs related to consolidating manufacturing operations and workforce reductions to bring production capacity in line with current and expected demand for the Company s products.

Interest expense decreased $0.5 million to $1.0 million for the fiscal year ended June 30, 2009 due to lower borrowings and interest rates.

Although the Company s full year tax rate is typically in the 35% - 39% range, fiscal year ended June 30, 2009 reflects an effective income tax benefit rate of 41.5% due to losses or low level of earnings in various tax jurisdictions. The effective income tax expense rate was 35.8% for the fiscal year ended June 30, 2008.

The above factors resulted in net loss for the fiscal year ended June 30, 2009 of $1.5 million or $0.23 per share compared to net income of $4.2 million or $0.64 per share for the fiscal year ended June 30, 2008.

All earnings per share amounts are on a diluted basis.

Fiscal 2008 Compared to Fiscal 2007

Net sales for the fiscal year ended June 30, 2008 were $405.7 million compared to $425.4 million in the prior fiscal year, a decrease of 4.6%. Residential net sales were $258.1 million compared to $259.7 million in the fiscal year ended June 30, 2007, a decrease of 0.6%. Commercial net sales were $91.5 million for the fiscal year ended June 30, 2008, a decrease of 8.1% from the fiscal year ended June 30, 2007. Recreational vehicle net sales were $56.1 million for the fiscal year ended June 30, 2008, a decrease of 15.2% from the fiscal year ended June 30, 2007. The fiscal year decline in all net sales categories is due to a generally soft market environment.

Net income for the fiscal year ended June 30, 2008 was $4.2 million or $0.64 per share compared to $9.3 million or $1.42 per share in the fiscal year ended June 30, 2007. Results for the fiscal year ended June 30, 2007 were favorably impacted by three significant non-recurring events. The Company sold a commercial property, which resulted in a pre-tax gain of approximately $4.0 million, or $0.37 per share after tax. The Company recognized a pre-tax gain on the sale of vacant land of approximately $0.4 million or $0.04 per share after tax. These gains are reported as Gain on sale of capital assets in the Consolidated Statements of Operations. The Company also realized a non-taxable gain on life insurance of $0.6 million, or $0.08 per share. This gain is included in Interest and other income in the Consolidated Statements of Operations.

Gross margin for the fiscal years ended June 30, 2008 and 2007 was 19.3% and 19.1%, respectively.

Selling, general and administrative expenses were 17.5 % and 16.7% of net sales for the fiscal years ended June 30, 2008 and 2007, respectively. The percentage increase in selling, general and administrative costs compared to the prior fiscal year is due primarily to higher marketing and sales support expenses and higher bad debt expense of $1.1 million on reduced revenues on a year over year basis.

The effective income tax rate for the fiscal year ended June 30, 2008 was 35.8%, reflecting lower net income compared to the prior year. The effective income tax rate was 35.6% for the fiscal year ended June 30, 2007. The 2007 rate was reduced by approximately 1.4% due to the non-taxable life insurance gain.

The above factors resulted in net income for the fiscal year ended June 30, 2008 of $4.2 million or $0.64 per share compared to $9.3 million or $1.42 per share for the fiscal year ended June 30, 2007.

All earnings per share amounts are on a diluted basis.

Liquidity and Capital Resources

Net cash provided by operating activities was $17.3 million for fiscal year 2009 compared to $8.7 million in fiscal year 2008. Cash from operating activities was used primarily to reduce borrowings by $16.0 million and pay dividends of $2.9 million. Significant changes in working capital from June 30, 2008 to June 30, 2009 included decreased accounts receivable of $12.5 million, decreased inventory of $11.9 million and decreased accounts payable of $4.8 million. The decrease in receivables is related to lower shipment volume. Lower customer demand for our products reduced production levels and finished product purchases which resulted in an inventory decrease. The decrease in accounts payable related to lower purchase volume based on current demand. The Company expects that due to the nature of our operations that there will be continuing fluctuations in accounts receivable, inventory, accounts payable, and cash flows from operations due to the following: (i) we purchase selected inventory items from offshore suppliers with long lead times and depending on the timing of the delivery of those orders inventory levels can be greatly impacted, and (ii) we have various customers that purchase large quantities of inventory periodically and the timing of those purchases can significantly impact inventory levels, accounts receivable, accounts payable and short-term borrowings. As discussed below the Company believes it has adequate financing arrangements and access to capital to absorb these fluctuations in operating cash flow.

Net cash provided by investing activities was $0.4 million in fiscal year 2009 compared to cash used in investing activities of $1.0 million in fiscal year 2008. Proceeds from the sale of investments were $1.5 million. Proceeds from the sale of capital assets were $0.7 million. Capital expenditures were $1.2 million for the fiscal year ended 2009. Depreciation and amortization expense was $3.7 million and $4.4 million for the fiscal years ended June 30, 2009 and 2008, respectively. The Company expects that capital expenditures will be approximately $2.0 million in fiscal year 2010.

Net cash used in financing activities was $18.8 million in fiscal year 2009 compared to $5.8 million in fiscal year 2008. Cash from operating activities was used to reduce borrowings by $16.0 million and pay dividends of $2.9 million. Borrowings were reduced by $2.4 million and dividends paid were $3.4 million in fiscal year 2008.

Management believes that the Company has adequate cash and credit arrangements to meet its operating and capital requirements for fiscal year 2010. 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. However, should the current economic conditions continue for an extended period of time or deteriorate significantly, we would further evaluate all uses of cash and credit facilities, including the payment of dividends and purchase of capital assets.

At June 30, 2009, the Company has no long-term debt obligations and therefore, no interest related to long-term debt. The following table summarizes the Company s contractual obligations at June 30, 2009 and the effect these obligations are expected to have on the Company s liquidity and cash flow in the future (in thousands):

	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Notes payable	$ 10,000	$ 10,000	$	$	$
Operating lease obligations	5,775	2,022	3,110	643	
Total contractual obligations	$ 15,775	$ 12,022	$ 3,110	$ 643	$

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 $5.0 million at June 30, 2009. At June 30, 2009 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 FIN 48 reserve from the above table, as the timing of payments, if any, cannot be reasonably estimated.

Financing Arrangements

See Note 7 to the Consolidated Financial Statements on page 23 of this Annual Report on Form 10-K.

Outlook

We believe that the consolidation of manufacturing operations and workforce reductions that the Company completed during the fiscal year has brought production capacity and fixed overhead more in line with current and expected demand for our products. Company wide employment has been reduced approximately 30% over the past year through plant closures and workforce reductions related to business conditions.

Demand for our products is dependent on factors such as consumer confidence, affordable housing, reasonably attainable financing and an economy with low levels of unemployment and high levels of disposable income. These factors remain in depressed positions, and indications are that they will remain that way in the near-term. We are not anticipating significant improvements in market conditions at this time, and are managing our business on that basis.

While we expect that current business conditions will persist for the remainder of calendar year 2009, we remain optimistic that our strategy of a wide range of quality product offerings and price points to the residential, recreational vehicle and commercial markets combined with our conservative approach to business will be rewarded when business conditions improve. We will maintain our focus on a strong balance sheet during these challenging economic times through emphasis on cash flow and improving profitability.

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.

Foreign Currency Risk During fiscal years 2009, 2008 and 2007, the Company did not have sales, purchases, or other expenses denominated in foreign currencies. As such, the Company is not 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, 2009, a hypothetical 100 basis point increase in short-term interest rates would decrease annual pre-tax earnings by approximately $50,000, assuming no change in the volume or composition of debt. As of June 30, 2009, the Company has effectively fixed the interest rates at 5.0% on approximately $10.0 million of its debt through the use of interest rate swaps, and the above estimated earnings reduction takes these swaps into account. On July 31, 2009, a $5.0 million swap matured. As of the date of this Annual Report on Form 10-K, the Company has effectively fixed its interest rate at 4.9% on approximately $5.0 million of its debt through the use of interest rate swaps. As of June 30, 2009 and 2008, the fair value of these swaps is a liability of approximately $0.3 million and is included in other long-term liabilities.

13

Tariffs The Company has exposure to actions by governments, including tariffs. Tariffs are a possibility on any imported or exported products.

Inflation Increased operating costs are reflected in product or services pricing with any limitations on price increases determined by the marketplace. The impact of inflation on the Company has not been significant during the past three years because of the relatively low rates of inflation experienced in the United States. Raw material costs, labor costs and interest rates are important components of costs for the Company. Inflation or other pricing pressures could impact any or all of these components, with a possible adverse effect on our profitability, especially where increases in these costs exceed price increases on finished products. In recent years, the Company has faced strong inflationary and other pricing pressures with respect to steel, fuel and health care costs, which have been partially mitigated by pricing adjustments.

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of Flexsteel Industries, Inc.

We have audited the accompanying consolidated balance sheets of Flexsteel Industries, Inc. and subsidiaries (the Company) as of June 30, 2009 and 2008, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended June 30, 2009. 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 at June 30, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2009, 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.

DELOITTE & TOUCHE LLP

Minneapolis, Minnesota
August 26, 2009

FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

	JUNE 30, 2009		JUNE 30, 2008	
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$	1,713,717	$	2,841,323
Investments				1,160,066
Trade receivables less allowance for doubtful accounts: 2009, $1,760,000; 2008, $2,110,000		31,282,511		43,783,224
Inventories		73,844,345		85,791,400
Deferred income taxes		3,960,000		4,210,000
Other		3,912,528		2,853,634
Total current assets		114,713,101		140,639,647
NONCURRENT ASSETS:				
Property, plant and equipment, net		23,297,643		26,372,392
Deferred income taxes		2,145,187		1,392,187
Other assets		10,815,052		11,501,992
TOTAL	$	150,970,983	$	179,906,218
LIABILITIES AND SHAREHOLDERS EQUITY				
CURRENT LIABILITIES:				
Accounts payable trade	$	9,744,658	$	14,580,275
Notes payable and current maturities on long-term debt		10,000,000		5,142,945
Accrued liabilities:				
Payroll and related items		4,937,712		6,759,941
Insurance		6,519,538		7,176,799
Other		5,095,162		6,059,575
Total current liabilities		36,297,070		39,719,535
LONG-TERM LIABILITIES:				
Long-term debt				20,810,597
Deferred compensation		4,991,435		5,343,545
Other liabilities		2,684,914		1,280,154
Total liabilities		43,973,419		67,153,831
COMMITMENTS AND CONTINGENCIES (Note 13)				
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				
Common stock $1 par value; authorized 15,000,000 shares; outstanding 2009, 6,576,373 shares; 2008, 6,575,633 shares		6,576,373		6,575,633
Additional paid-in capital		4,369,263		4,255,996
Retained earnings		97,815,822		101,692,431
Accumulated other comprehensive (loss) income		(1,763,894)		228,327
Total shareholders equity		106,997,564		112,752,387
TOTAL	$	150,970,983	$	179,906,218

See accompanying Notes to Consolidated Financial Statements.

FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES
Consolidated Statements of Operations

	FOR THE YEARS ENDED JUNE 30, 2009	2008	2007
NET SALES	$ 324,157,556	$ 405,654,829	$ 425,399,951
COST OF GOODS SOLD	(263,083,274)	(327,165,396)	(344,176,763)
GROSS MARGIN	61,074,282	78,489,433	81,223,188
SELLING, GENERAL AND ADMINISTRATIVE	(60,791,151)	(70,893,485)	(70,895,260)
FACILITY CONSOLIDATION AND OTHER CHARGES	(2,554,771)		
GAIN ON SALE OF CAPITAL ASSETS			4,370,712
OPERATING (LOSS) INCOME	(2,271,640)	7,595,948	14,698,640
OTHER INCOME (EXPENSE):			
Interest and other income	661,058	468,933	1,276,857
Interest expense	(968,762)	(1,468,476)	(1,491,510)
Total	(307,704)	(999,543)	(214,653)
(LOSS) INCOME BEFORE INCOME TAXES	(2,579,344)	6,596,405	14,483,987
INCOME TAX BENEFIT (PROVISION)	1,070,000	(2,360,000)	(5,150,000)
NET (LOSS) INCOME	$ (1,509,344)	$ 4,236,405	$ 9,333,987
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:			
Basic	6,576,373	6,573,999	6,567,522
Diluted	6,576,373	6,611,136	6,582,558
(LOSS) EARNINGS PER SHARE OF COMMON STOCK:			
Basic	$ (0.23)	$ 0.64	$ 1.42
Diluted	$ (0.23)	$ 0.64	$ 1.42
CASH DIVIDENDS DECLARED PER COMMON SHARE	$ 0.36	$ 0.52	$ 0.52

See accompanying Notes to Consolidated Financial Statements.

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

	Total Par Value of Common Shares ($1 Par)	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balance at July 1, 2006	$ 6,563,750	$ 3,670,152	$ 95,065,832	$ 766,112	$ 106,065,846
Issuance of common stock:					
Stock options exercised, net	1,566	10,891			12,457
401(k) plan shares	5,151	58,413			63,564
Unrealized gain on available for sale investments, net of tax				301,611	301,611
Stock-based compensation		274,000			274,000
Interest rate swaps valuation adjustment, net of tax				(168,137)	(168,137)
SFAS No. 87 minimum pension liability				254,638	254,638
SFAS No. 158 transition adjustment				(44,093)	(44,093)
Cash dividends declared			(3,415,242)		(3,415,242)
Net income			9,333,987		9,333,987
Balance at June 30, 2007	6,570,467	4,013,456	100,984,577	1,110,131	112,678,631
Adoption of FIN 48			(110,000)		(110,000)
Issuance of common stock:					
Stock options exercised, net	1,642	13,314			14,956
401(k) plan shares	3,524	43,226			46,750
Unrealized loss on available for sale investments, net of tax				(84,342)	(84,342)
Stock-based compensation		186,000			186,000
Interest rate swaps valuation adjustment, net of tax				(273,062)	(273,062)
Minimum pension liability adjustment, net of tax				(524,400)	(524,400)
Cash dividends declared			(3,418,551)		(3,418,551)
Net income			4,236,405		