

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 December 31, 2020

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**

(State or other Jurisdiction of  
Incorporation or Organization)

**42-0442319**

(I.R.S. Identification No.)

**385 BELL STREET**

**DUBUQUE, IA 52001-0877**

(Address of Principal Executive Offices) (Zip Code)

**(563) 556-7730**

(Registrant's Telephone Number, Including Area Code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	FLXS	The Nasdaq Stock Market, LLC

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 every Interactive Data File required to be submitted 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act (check one).

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  Smaller Reporting Company  Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 January 27, 2021

7,061,152

**FLEXSTEEL INDUSTRIES, INC.**  
**QUARTERLY REPORT ON FORM 10-Q**  
**FOR THE QUARTER ENDED DECEMBER 31, 2020**

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**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS (UNAUDITED)  
(Amounts in thousands)**

	December 31, 2020	June 30, 2020
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 33,296	\$ 48,197
Trade receivables - less allowances: December 31, 2020, \$3,110; June 30, 2020, \$1,770	46,317	32,217
Inventories	92,024	70,565
Other	12,496	18,535
Assets held for sale	666	12,329
<b>Total current assets</b>	<b>184,799</b>	<b>181,843</b>
<b>NONCURRENT ASSETS:</b>		
Property, plant and equipment, net	40,251	43,312
Operating lease right-of-use assets	9,463	8,683
Deferred income taxes	—	2,111
Other assets	1,299	1,310
<b>TOTAL ASSETS</b>	<b>\$ 235,812</b>	<b>\$ 237,259</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable - trade	\$ 27,842	\$ 27,747
Current portion of operating lease liabilities	4,155	4,408
Accrued liabilities:		
Payroll and related items	8,210	3,275
Insurance	3,201	3,787
Restructuring costs	1,418	1,961
Advertising	5,231	3,823
Environmental remediation	3,570	3,600
Other	4,849	4,861
<b>Total current liabilities</b>	<b>58,476</b>	<b>53,462</b>
<b>LONG-TERM LIABILITIES:</b>		
Operating lease liabilities, less current maturities	8,000	7,607
Other liabilities	929	685
<b>Total liabilities</b>	<b>67,405</b>	<b>61,754</b>
<b>SHAREHOLDERS' EQUITY:</b>		
Common stock - \$1 par value; authorized 15,000 shares; 8,082 shares issued and 7,087 outstanding as of December 31, 2020; 8,008 shares issued and 7,876 outstanding as of June 30, 2020	8,082	8,008
Additional paid-in capital	33,373	31,748
Treasury stock, at cost; 995 shares and 132 shares as of December 31, 2020 and June 30, 2020, respectively	(21,576)	(1,563)
Retained earnings	148,528	137,312
<b>Total shareholders' equity</b>	<b>168,407</b>	<b>175,505</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 235,812</b>	<b>\$ 237,259</b>

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 December 31,		Six Months Ended December 31,	
	2020	2019	2020	2019
Net sales	\$ 119,106	\$ 102,949	\$ 224,345	\$ 203,297
Cost of goods sold	94,728	86,899	177,152	170,026
Gross margin	24,378	16,050	47,193	33,271
Selling, general and administrative	18,911	18,088	33,086	35,563
Restructuring expense	863	5,067	2,244	11,071
Gain on disposal of assets due to restructuring	(5,229)	(26)	(5,881)	(18,967)
Operating income (loss)	9,833	(7,079)	17,744	5,604
Other income	162	107	211	193
Income (loss) before income taxes	9,995	(6,972)	17,955	5,797
Income tax provision (benefit)	1,545	(1,588)	5,626	1,630
Net income (loss)	\$ 8,450	\$ (5,384)	\$ 12,329	\$ 4,167
Weighted average number of common shares outstanding:				
Basic	7,246	7,944	7,475	7,936
Diluted	7,495	7,944	7,681	8,146
Earnings (loss) per share of common stock:				
Basic	\$ 1.17	\$ (0.68)	\$ 1.65	\$ 0.53
Diluted	\$ 1.13	\$ (0.68)	\$ 1.61	\$ 0.51

See accompanying Notes to Consolidated Financial Statements (Unaudited).

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2020	2019	2020	2019
Net income (loss)	\$ 8,450	\$ (5,384)	\$ 12,329	\$ 4,167
Other comprehensive loss:				
Unrealized loss on securities	—	(5)	—	(18)
Reclassification of realized loss on securities to other income	—	5	—	7
Unrealized losses in securities before taxes	—	—	—	(11)
Income tax benefit related to securities losses	—	—	—	3
Other comprehensive loss, net of tax	—	—	—	(8)
Comprehensive income (loss)	\$ 8,450	\$ (5,384)	\$ 12,329	\$ 4,159

See accompanying Notes to Consolidated Financial Statements (Unaudited).

**FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)**  
(Amounts in thousands)

	Six Months Ended December 31, 2020				
	Total Par Value of Common Shares (\$1 Par)	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Total
Balance at June 30, 2020	\$ 8,008	\$ 31,748	\$ (1,563)	\$ 137,312	\$ 175,505
Stock-based compensation	2	954	—	—	956
Vesting of restricted stock units and restricted shares	55	(387)	—	—	(332)
Treasury stock purchases	—	—	(9,000)	—	(9,000)
Cash dividends declared	—	—	—	(383)	(383)
Net income	—	—	—	3,879	3,879
Balance at September 30, 2020	<u>\$ 8,065</u>	<u>\$ 32,315</u>	<u>\$ (10,563)</u>	<u>\$ 140,808</u>	<u>\$ 170,625</u>
Stock-based compensation	10	1,017	—	—	1,027
Stock options exercised	7	41	—	—	48
Treasury stock purchases	—	—	(11,013)	—	(11,013)
Cash dividends declared	—	—	—	(730)	(730)
Net income	—	—	—	8,450	8,450
Balance at December 31, 2020	<u>\$ 8,082</u>	<u>\$ 33,373</u>	<u>\$ (21,576)</u>	<u>\$ 148,528</u>	<u>\$ 168,407</u>

	Six Months Ended December 31, 2019				
	Total Par Value of Common Shares (\$1 Par)	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balance at June 30, 2019	\$ 7,903	\$ 27,512	\$ 170,004	\$ 8	\$ 205,427
Adoption of ASU 2016-02	—	—	(42)	—	(42)
Unrealized gain on available for sale investments, net of tax	—	—	—	(8)	(8)
Stock-based compensation	39	1,310	—	—	1,349
Cash dividends declared	—	—	(1,754)	—	(1,754)
Net income	—	—	9,551	—	9,551
Balance at September 30, 2019	<u>\$ 7,942</u>	<u>\$ 28,822</u>	<u>\$ 177,759</u>	<u>\$ —</u>	<u>\$ 214,523</u>
Stock-based compensation	6	1,891	—	—	1,897
Stock options exercised	2	19	—	—	21
Cash dividends declared	—	—	(1,816)	—	(1,816)
Net income	—	—	(5,384)	—	(5,384)
Balance at December 31, 2019	<u>\$ 7,950</u>	<u>\$ 30,732</u>	<u>\$ 170,559</u>	<u>\$ —</u>	<u>\$ 209,241</u>

See accompanying Notes to Consolidated Financial Statements (Unaudited).

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

	Six Months Ended December 31,	
	2020	2019
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 12,329	\$ 4,167
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	2,687	4,930
Deferred income taxes	2,110	(13)
Stock-based compensation expense	1,983	3,312
Change in provision for losses on accounts receivable	1,335	(178)
Change in reserve for VAT receivable	—	(943)
Gain on disposition of capital assets	(5,858)	(18,967)
Changes in operating assets and liabilities:		
Trade receivables	(15,435)	(3,232)
Inventories	(21,459)	7,109
Other current assets	6,038	7,143
Other assets	11	176
Accounts payable - trade	125	1,849
Accrued liabilities	4,954	(4,165)
Other long-term liabilities	246	(409)
Net cash (used in) provided by operating activities	<u>(10,934)</u>	<u>779</u>
<b>INVESTING ACTIVITIES:</b>		
Purchases of investments	(16)	(1,268)
Proceeds from sales of investments	16	1,269
Proceeds from sale of capital assets	18,527	19,652
Capital expenditures	(663)	(1,814)
Net cash provided by investing activities	<u>17,864</u>	<u>17,839</u>
<b>FINANCING ACTIVITIES:</b>		
Dividends paid	(1,535)	(3,485)
Treasury stock purchases	(20,013)	—
Proceeds from issuance of common stock	40	21
Shares withheld for tax payments on vested restricted shares	(323)	(67)
Net cash used in financing activities	<u>(21,831)</u>	<u>(3,531)</u>
(Decrease) increase in cash and cash equivalents	(14,901)	15,087
Cash and cash equivalents at beginning of period	48,197	22,247
Cash and cash equivalents at end of period	<u>\$ 33,296</u>	<u>\$ 37,334</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Income taxes paid (refunded), net	\$ (5,783)	\$ (4,623)
Capital expenditures in accounts payable	\$ 31	\$ 135

See accompanying Notes to Consolidated Financial Statements (Unaudited).

**FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE PERIOD ENDED DECEMBER 31, 2020**

**1. BASIS OF PRESENTATION AND DESCRIPTION OF BUSINESS**

**DESCRIPTION OF BUSINESS** – Flexsteel Industries, Inc. and Subsidiaries (the “Company”) is one of the largest manufacturers, importers and online marketers of furniture products in the United States. Product offerings include a wide variety of upholstered 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. A featured component in most of the upholstered furniture is a unique steel drop-in seat spring from which the name “Flexsteel” is derived. The Company distributes its products throughout the United States through its e-commerce channel and dealer network.

**COVID-19** - In March 2020, a novel strain of coronavirus (“COVID-19”) was declared a global pandemic by the World Health Organization. This pandemic has negatively affected the U.S. and global economies, disrupted global supply chains and financial markets, led to significant travel and transportation restrictions, including mandatory business closures and orders to shelter in place. The Company’s business operations and financial performance for the fiscal year 2020 were impacted by COVID-19. During the three and six months ended December 31, 2020, we have seen improvement in our business conditions as retailers have reopened and orders have increased, however, we continue to see supply chain challenges faced by the furniture industry due to labor shortages specifically in Asia, limited availability of ocean containers, and inflationary pressures in key materials. The COVID-19 pandemic remains fluid and the extent of the impact to our business may be significant, however, we are unable to predict the extent or nature of these impacts at this time.

**BASIS OF PRESENTATION** – 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 six months ended December 31, 2020 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2021. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with generally accepted accounting principles (“GAAP”) in the United States of America 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, 2020, appropriately represent, in all material respects, the current status of accounting policies and are incorporated by reference.

**RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS** – In June 2016, the FASB issued ASU 2016-13 “*Financial Instruments - Credit Losses (Topic 326)*” and also issued subsequent amendments to the initial guidance under ASU 2018-19, ASU 2019-04 and ASU 2019-05 (collectively Topic 326). Topic 326 requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. This replaces the existing incurred loss model with an expected loss model and requires the use of forward-looking information to calculate credit loss estimates. The amendments in this guidance are effective for fiscal years beginning after December 15, 2019, with early adoption permitted for certain amendments. Topic 326 must be adopted by applying a cumulative effect adjustment to retained earnings. Effective July 1, 2020, the Company adopted Topic 326 and there was no impact to the Company’s financial statements.

**2. LEASES**

The Company accounts for its leases in accordance with Accounting Standards Update (“ASU”) No. 2016-02, Leases (Topic 842) (“ASC 842”). ASC 842 requires lessees to (i) recognize a right of use asset (“ROU asset”) and a lease liability that is measured at the present value of the remaining lease payments, on the consolidated balance sheets, (ii) recognize a single lease cost, calculated over the lease term on a straight-line basis and (iii) classify lease related cash payments within operating and financing activities. The Company has made an accounting policy election to not recognize short-term leases on the consolidated balance sheets and all non-lease components, such as common area maintenance, were excluded. At any given time during the lease term, the lease liability represents the present value of the remaining lease payments, and the ROU asset is measured as the amount of the lease liability, adjusted for pre-paid rent, unamortized initial direct costs and the remaining balance of lease incentives received. Both the lease ROU asset and liability are reduced to zero at the end of the lease term.

The Company leases distribution centers and warehouses, manufacturing facilities, showrooms and office space. At the lease inception date, the Company determines if an arrangement is, or contains a lease. Some of the Company’s leases include options to renew at similar terms. The Company assesses these options to determine if the Company is reasonably certain of exercising these options based

on relevant economic and financial factors. Options that meet these criteria are included in the lease term at the lease commencement date.

For purposes of measuring the Company's lease liability, the discount rate utilized by the Company was based on the Company's line of credit as well as publicly available data for instruments with similar terms. Some of the Company's leases contain variable rent payments, including common area maintenance and utilities. Due to the variable nature of these costs, they are not included in the measurement of the ROU asset and lease liability.

The components of the Company's leases reflected on the Company's consolidated statements of income were as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2020	2019	2020	2019
<i>(in thousands)</i>				
Operating lease expense	\$ 991	\$ 1,168	\$ 2,065	\$ 2,341
Variable lease expense	74	64	143	129
Total lease expense	\$ 1,065	\$ 1,232	\$ 2,208	\$ 2,470

Other information related to leases under non-cancellable operating leases were as follows:

	Six Months Ended	
	December 31, 2020	December 31, 2019
<i>(in thousands)</i>		
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>		
Operating cash flows from operating leases	\$ 2,547	\$ 1,990
<b>Right-of-use assets obtained in exchange for lease liabilities:</b>		
Operating leases	\$ 2,741	\$ 3,604
<b>Weighted-average remaining lease term (in years):</b>		
Operating leases	1.9	2.0
<b>Weighted-average discount rate:</b>		
Operating leases	3.3%	3.5%

Future minimum lease payments under non-cancellable operating leases are as follows as of December 31, 2020:

<i>(in thousands)</i>		
Within one year	\$	4,491
After one year and within two years		4,048
After two years and within three years		2,844
After three years and within four years		1,491
After four years and within five years		1
After five years		—
Total future minimum lease payments	\$	12,875
Less – Discount		720
Lease liability	\$	12,155

### 3. INVENTORIES

A comparison of inventories is as follows:

	December 31, 2020	June 30, 2020
<i>(in thousands)</i>		
Raw materials	\$ 17,746	\$ 11,119
Work in process and finished parts	3,743	3,925
Finished goods	70,535	55,521
Total	\$ 92,024	\$ 70,565



#### 4. RESTRUCTURING

On May 15, 2019, the Company announced its plans to exit the Commercial Office and custom-designed Hospitality product lines. The changes were initial outcomes driven from customer and product line profitability and footprint utilization analyses in the fourth quarter of fiscal 2019. On June 18, 2019, the Company announced it completed the analysis and planning process and set forth the comprehensive transformation program to be executed over a two year period, which includes previously announced restructuring activities on May 15, 2019. The transformation program includes activities such as business simplification, process improvement, exiting of non-core businesses, facility closures, and reductions in work force. The Company has substantially completed the portion of the restructuring activities related to the exit of the Commercial Office and custom-designed Hospitality product lines.

On April 28, 2020, the Company announced the exit of the Vehicle Seating and the remainder of the Hospitality product lines, and subsequently closed its Dubuque, Iowa and Starkville, Mississippi manufacturing facilities. The Company expects to complete the restructuring activities related to the exit of the Vehicle Seating and the remainder of the Hospitality product lines during fiscal 2021.

As a result of these planned actions, the Company expects to incur pre-tax restructuring and related expenses of approximately \$58.0 million over this two year timeframe of which approximately \$26.0 million will be cash and \$32.0 million non-cash. The remaining properties listed for sale as part of the footprint optimization are included in Note 5, Assets Held for Sale. Total cumulative restructuring and related costs incurred as of December 31, 2020 were \$57.5 million.

The following is a summary of restructuring costs:

<i>(in thousands)</i>	Three Months Ended		Six Months Ended	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Inventory impairment	\$ 45	\$ 27	\$ 45	\$ 206
One-time employee termination benefits	—	123	179	469
Other associated costs	863	4,944	2,065	10,602
Total restructuring and related expenses	\$ 908	\$ 5,094	\$ 2,289	\$ 11,277
Reported as:				
Cost of goods sold	\$ 45	\$ 27	\$ 45	\$ 206
Operating expenses	\$ 863	\$ 5,067	\$ 2,244	\$ 11,071

Other associated costs include legal and professional fees, stock-based compensation expense for retention restricted stock units in connection with the Company's restructuring plan, on-going facilities and transition costs.

The rollforward of the accrued restructuring costs is as follows:

<i>(in thousands)</i>	Inventory	One-time	Contract	Other	Total
	Impairment	Employee Termination Benefits	Termination Costs	Associated Costs	
Accrual balance at June 30, 2020	\$ —	\$ 1,613	\$ 110	\$ 238	\$ 1,961
Costs incurred	45	179	—	2,065	2,289
Expenses paid	—	(420)	(110)	(1,821)	(2,351)
Non-cash	(45)	—	—	(436)	(481)
Accrual balance at December 31, 2020	\$ —	\$ 1,372	\$ —	\$ 46	\$ 1,418

## 5. ASSETS HELD FOR SALE

In the prior fiscal year 2020, the Company committed to a plan to sell assets located at the Company's Starkville, Mississippi and Harrison, Arkansas, locations. The commitment to sell these assets are part of the Company's restructuring plan, see Note 4 *Restructuring*. A summary of the assets held for sale is included in the table below as of December 31, 2020.

Location	Asset Category	Cost	Accumulated Depreciation	Net Book Value
<i>(in thousands)</i>				
Starkville, Mississippi	Building & building improvements	4,615	(4,254)	361
	Land & land improvements	694	(439)	255
	Total Starkville	5,309	(4,693)	616
Harrison, Arkansas	Building & building improvements	1,000	(1,000)	—
	Land & land improvements	86	(36)	50
	Machinery & equipment	1,330	(1,330)	—
	Total Harrison	2,416	(2,366)	50
Total assets held for sale		<u>\$ 7,725</u>	<u>\$ (7,059)</u>	<u>\$ 666</u>

## 6. CREDIT ARRANGEMENTS

On August 28, 2020, the Company entered into a new two year secured \$25.0 million revolving line of credit with Dubuque Bank and Trust Company, with interest of 1.50% plus LIBOR, subject to a floor of 3.00%. The revolving line of credit is secured by essentially all the Company's assets, excluding real property and requires the Company maintain compliance with certain financial and non-financial covenants. The revolving line of credit matures on August 28, 2022. There was no outstanding amount under the revolving line of credit as of December 31, 2020.

Letters of credit outstanding at Wells Fargo Bank N.A. ("Wells") as of December 31, 2020, totaled \$1.1 million, of which \$1.3 million of the Company's cash held at Wells is pledged as collateral.

## 7. INCOME TAXES

The provision for income taxes for the interim periods is based on an estimate of the Company's annual effective tax rate adjusted to reflect the impact of discrete items. Management judgment is required in projecting ordinary income to estimate the Company's annual effective tax rate. The Company's effective tax rate for the quarters ended December 31, 2020 and December 31, 2019 were 15.5% and 22.8%, respectively, and for the six months ended December 31, 2020 and December 31, 2019 were 31.3% and 28.1%, respectively. The quarter ended December 31, 2020 effective rate of 15.5% was due to a discrete tax benefit arising from the reversal of valuation allowances resulting from the gain on the sale of capital assets.

## 8. STOCK-BASED COMPENSATION

The Company accounts for its stock-based compensation plans in accordance with ASC 718, *Stock Compensation*, which requires the Company to measure all share-based payments at grant date fair value and recognize the cost over the requisite service period. Restricted shares and restricted stock units ("RSUs") generally vest over 1 to 3 years. Stock options are granted at an exercise price equal to the fair value of the Company's common stock price at the grant date and are exercisable for up to 10 years. Stock-based compensation is included in selling, general and administrative, and restructuring expenses on the Consolidated Statements of Income. The stock-based compensation expense included in restructuring expense were for retention RSUs in connection with the Company's restructuring plan. Forfeitures are recognized as incurred.

The following table is a summary of total stock-based compensation expense for the three and six months ended December 31, 2020.

<i>(in thousands)</i>	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2020	2019	2020	2019
Total stock-based compensation expense	\$ 1,029	\$ 1,897	\$ 1,983	\$ 3,077

The Company has two stock-based compensation plans available for granting awards to employees and directors.

(1) Long-Term Incentive Compensation Plan (“LTICP”).

The LTICP provides for RSUs to be awarded to officers and key employees based on performance targets set by the Compensation Committee of the Board of Directors (the “Committee”). The Company selected fully-diluted earnings per share and total shareholder return as the performance goal for the three year performance period from July 1, 2018 – June 30, 2021 (“2019-2021”). As of June 30, 2019, the performance period 2019-2021 is no longer attainable. For the July 1, 2019 – June 30, 2022 (“2020-2022”) and the July 1, 2020 – June 30, 2023 (“2021-2023”) three year performance periods, the Committee selected Adjusted Earnings Before Interest and Tax with a defined percentage growth in fiscal year 2021 and 2022 as the performance goal. Since the 2019-2021 performance period is no longer attainable, only RSUs granted for the 2020-2022 and 2021-2023 performance periods are included in the table below for the Company’s unvested LTICP RSUs during the six months ended December 31, 2020:

<i>(shares in thousands)</i>	Time Based Vest		Performance Based Vest		Total	
	Shares	Weighted average	Shares	Weighted average	Shares	Weighted average
		fair value		fair value		fair value
	per share	per share	per share	per share	per share	per share
Unvested as June 30, 2020	44	\$ 16.90	44	\$ 16.76	88	\$ 16.83
Granted	64	12.01	99	12.01	163	12.01
Unvested as of December 31, 2020	108	\$ 13.98	143	\$ 13.47	251	\$ 13.69

Total unrecognized stock-based compensation related to the unvested LTICP RSUs at performance target was \$2.2 million as of December 31, 2020, which is expected to be recognized over a period of 2.1 years.

(2) 2013 Omnibus Stock Plan

The 2013 Omnibus Stock Plan is for key employees, officers and directors and provides for the granting of incentive and nonqualified stock options, restricted stock, restricted stock units, stock appreciation rights and performance units.

**Restricted shares and RSUs**

A summary of the activity in the Company’s unvested restricted shares and unvested RSUs during the six months ended December 31, 2020 is as follows:

	Shares	Weighted average
	(in thousands)	fair value
		per share
Unvested as June 30, 2020	189	\$ 15.24
Granted	19	27.03
Vested	(86)	16.92
Forfeited	(1)	15.65
Unvested as of December 31, 2020	121	\$ 18.67

Total unrecognized stock-based compensation related to unvested restricted shares and unvested RSUs was \$0.7 million as of December 31, 2020, which is expected to be recognized over a weighted average period of 0.8 years.

## Options

A summary of the activity of the Company's stock option plans as of December 31, 2020, is presented below:

	Shares (in thousands)	Weighted Average Exercise Price
Outstanding at June 30, 2020	223	\$ 23.70
Granted	37	12.77
Exercised	(13)	18.90
Cancelled	(5)	12.89
Outstanding at December 31, 2020	<u>242</u>	<u>\$ 22.51</u>

The following table summarizes information for options outstanding at December 31, 2020:

Range of Prices	Options Outstanding (in thousands)	Weighted Average	
		Remaining Life (Years)	Exercise Price
\$ 9.97 - 15.14	104	8.6	\$ 12.72
19.72 - 19.77	9	1.9	19.72
20.50 - 27.57	66	5.5	23.93
31.06 - 32.80	37	5.4	32.20
43.09 - 47.45	26	5.7	45.36
\$ 8.55 - 47.45	<u>242</u>	<u>6.5</u>	<u>\$ 22.51</u>

Total unrecognized stock-based compensation expense related to options was \$0.03 million as of December 31, 2020, which is expected to be recognized over a period of 1.1 years.

### Stock-based compensation granted outside a plan

During the quarter ended December 31, 2018, the Company awarded its Chief Executive Officer 55,000 options outside of any Company stock plans. During the quarter ended June 30, 2020, the Company awarded its Chief Financial Officer/Chief Operating Officer 79,000 options outside of any Company stock plans. Total unrecognized stock-based compensation expense related to options awarded outside a plan was \$0.1 million as of December 31, 2020, which is expected to be recognized over a period of 1.9 years.

## 9. EARNINGS PER SHARE

Basic earnings per share (EPS) of common stock are based on the weighted-average number of common shares outstanding during each period. Diluted earnings per share of common stock include the dilutive effect of potential common shares outstanding. The Company's potential common shares outstanding are stock options, shares associated with the Long-Term Incentive Compensation Plan and non-vested restricted stock units and restricted shares. The Company calculates the dilutive effect of outstanding options, restricted stock units and restricted shares using the treasury stock method. Anti-dilutive options 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.

(in thousands)	Three Months Ended December 31,		Six Months Ended December 31,	
	2020	2019	2020	2019
Basic shares	7,246	7,944	7,475	7,936
Potential common shares:				
Stock options	147	—	110	6
Non-vested restricted stock units and restricted shares	102	—	96	204
	<u>249</u>	<u>—</u>	<u>206</u>	<u>210</u>
Diluted shares	<u>7,495</u>	<u>7,944</u>	<u>7,681</u>	<u>8,146</u>
Anti-dilutive shares	<u>63</u>	<u>—</u>	<u>91</u>	<u>254</u>

Cash dividends declared per common share were \$0.10 and \$0.15 for the three and six months ended December 31, 2020, respectively, and \$0.22 and \$0.44 for the three and six months ended December 31, 2019, respectively.

## 10. LITIGATION

**Environmental Matters** – In March 2016, the Company received a General Notice Letter for the Lane Street Groundwater Superfund Site (the “Lane Street Site”) located in Elkhart, Indiana from the U.S. Environmental Protection Agency (EPA). In April 2016, the EPA issued their proposed clean-up plan for groundwater pollution and request for public comment. The Company responded to the request for public comment in May 2016. The EPA issued a Record of Decision selecting a remedy in August 2016 and estimated total costs to remediate of \$3.6 million. In July 2017, the EPA issued a Special Notice Letter to the Company demanding that the Company perform the remedy selected and pay for the remediation cost and past response costs of \$5.5 million. On October 12, 2017, the Company, after consultation with its insurance carriers, offered an amount, fully reimbursable by insurance coverage, to the EPA to resolve this matter. On November 6, 2017, the settlement offer extended on October 12, 2017 was rejected.

In April 2018, the EPA issued a Unilateral Administrative Order for Remedial Design and Remedial Action (the “Order”) against the Company. The Order was issued under Section 106(a) of the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), 42 U.S.C. §9606(a). The Order directs the Company to perform remedial design and remedial action for the Lane Street Site. The Order was to be effective May 29, 2018. To ensure completion of the remediation work, the EPA required the Company to secure financial assurance in the initial amount of \$3.6 million, which as noted above, is the estimated cost of remedial work. The Company believes that financial assurance is not required because it meets the relevant financial test criteria as provided in the Order. In May 2018, the EPA agreed to suspend enforcement of the Order so that the Company could conduct environmental testing upgradient to its former manufacturing location pursuant to an Administrative Order on Consent (AOC). On April 24, 2019, the Company signed an AOC with the EPA to conduct the upgradient investigation. The Company negotiated site access to the upgradient property over a period of months in 2019, followed by completion of sampling activities on that property on September 28-29, 2019. Following multiple exchanges from November 2019 through early 2020, the Company submitted a final and supplemental report to the EPA regarding the results of the upgradient investigation on June 17, 2020. On July 13, 2020, the Company further entered in to a Second Amended Tolling Agreement that tolls the statute of limitations for potential claims by the EPA through February 24, 2021. The Company reflected a \$3.6 million liability in the consolidated balance sheets for the fiscal year ended June 30, 2018. Despite the Company’s position that it did not cause nor contribute to the contamination, the Company continues to reflect this liability in the consolidated balance sheets as of December 31, 2020 in accordance with FASB issued *Asset Retirement and Environmental Obligations (ASC 410-30)*. The Company continues to evaluate the Order, its legal options and insurance coverages to assert its defense and recovery of current and future expenses related to this matter.

**Employment Matters** – The lawsuit entitled *Juan Hernandez, et al. v. Flexsteel Industries, Inc.* (“*Hernandez I*”), was filed on February 21, 2019 in the Superior Court for the County of Riverside by former employees Juan Hernandez and Richard Diaz (together, “Plaintiffs”). On April 29, 2019, Plaintiffs filed a second similarly titled lawsuit in the Superior Court for the County of Riverside (“*Hernandez II*”). *Hernandez II* is brought by the same attorneys as *Hernandez I* and features a single cause of action for civil penalties under the Private Attorneys General Act (“PAGA”). The Company agreed to resolve both *Hernandez I* and *Hernandez II* in principle and on a class-wide basis for \$0.5 million. That settlement will serve to resolve the claims of the two Plaintiffs, as well as the approximately 270 remaining members of the class unless an individual class member asks to be excluded. At present, the material terms of the settlement are captured in a Long-Form Settlement Agreement. The Company anticipates that the court will grant final approval of the parties’ settlement within the next three months, such that any settlement payments will be made during the fiscal year ended June 30, 2021. The settlement amount of \$0.5 million, has been accrued in other current liabilities during the fiscal year ended June 30, 2019 and the Company continues to reflect this liability in the consolidated balance sheets as of December 31, 2020.

**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.

Statement Regarding the Impact of the COVID-19 Pandemic

The World Health Organization (“WHO”) on March 11, 2020 declared novel coronavirus 2019 (“COVID-19”) a global pandemic. In response to this declaration, the Company has taken the following actions to maneuver the current economic landscape;

- Employees that can perform work outside of the workplace are working from home,
- Suspension of the Company’s 401K match effective June 1, 2020 through the end of the calendar year,
- Temporary 50% reduction of cash compensation for the Company’s Board of Directors through October 1, 2020,
- Temporary 25% reduction of salary compensation for the Company’s Chief Executive Officer and Chief Financial Officer / Chief Operating Officer through October 1, 2020,
- Elimination of all non-essential expenses and capital expenditures; and
- Negotiated with vendors to extend payment terms.

During the three and six months ended December 31, 2020, we have seen improvement in our business conditions as retailers have reopened and orders have increased, however, we continue to see supply chain challenges faced by the furniture industry due to labor shortages specifically in Asia, limited availability of ocean containers, and inflationary pressures in key materials. The COVID-19 pandemic remains fluid and the extent of the impact to our business may be significant, however, we are unable to predict the extent or nature of these impacts at this time.

**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 2020 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 and six months ended December 31, 2020 and 2019. Amounts presented are percentages of the Company’s net sales.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2020	2019	2020	2019
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold	79.5	84.4	79.0	83.6
Gross margin	20.5	15.6	21.0	16.4
Selling, general and administrative	15.9	17.6	14.7	17.5
Restructuring expense	0.7	4.9	1.0	5.4
Gain on disposal of assets due to restructuring	(4.4)	(0.0)	(2.6)	(9.3)
Operating income (loss)	8.3	(6.9)	7.9	2.8
Other income	0.1	0.1	0.1	0.1
Income (loss) before income taxes	8.4	(6.8)	8.0	2.9
Income tax provision (benefit)	1.3	(1.5)	2.5	0.8
Net income (loss)	7.1 %	(5.2)%	5.5 %	2.0 %

Results of Operations for the Quarter Ended December 31, 2020 vs. 2019

Net sales were \$119.2 million for the quarter ended December 31, 2020 compared to net sales of \$102.9 million in the prior year quarter, an increase of 15.7%. The increase in sales of \$16.2 million was primarily driven by \$22.4 million related to home furnishing products sold through retailers and \$1.8 million for home furnishing products sold through e-commerce channels, partially offset by a decline of \$8.0 million primarily due to the exit from our Vehicle Seating and Hospitality product lines during the fourth quarter of

fiscal 2020. Net sales growth in our home furnishing products were virtually in all product categories due to demand and record back log from the end of our first quarter of fiscal year 2021.

Gross margin as a percent of net sales for the quarter ended December 31, 2020 was 20.5%, compared to 15.6% for the prior year quarter, an increase of 490 basis points (“bps”). The 490-bps increase was primarily due to structural cost reductions, operational efficiencies, fixed cost leverage due to higher sales volume as compared to the prior year quarter and a decline in the Company’s inventory reserve due to strong demand, which resulted in sales of previously reserved products.

Selling, general and administrative (“SG&A”) expenses increased \$0.8 million in the quarter ended December 31, 2020 compared to the prior year quarter. As a percentage of net sales, SG&A was 15.9% in the quarter ended December 31, 2020 compared to the prior year quarter of 17.6%. The 170 bps decline compared to the prior year quarter was primarily due to cost leverage gained from higher sales, reductions in non-essential spending in response to COVID-19, and lower depreciation expense due to assets being held for sale, partially offset by a 110 bps increase related to a \$1.3 million bad debt expense due to a customer bankruptcy during the quarter ended December 31, 2020.

During the quarter ended December 31, 2020, we incurred \$0.9 million of restructuring expenses primarily for on-going utilities and maintenance costs for our facilities listed as held for sale. See Note 4, Restructuring, of the Notes to Consolidated Financial Statements, included in this Quarterly Report on Form 10-Q for more information.

In December 2020, we completed the sale of our Dubuque, Iowa and Lancaster, Pennsylvania facilities, resulting in total net proceeds of \$15.7 million and total gain of \$5.2 million.

Income tax expense was \$1.5 million, or an effective rate of 15.5%, and income tax benefit of \$1.6 million, or an effective rate of 22.8% during the quarter ended December 31, 2020 and December 31, 2019, respectively. The change in the effective rate was primarily due to a discrete tax benefit arising from the reversal of valuation allowances resulting from the gain on the sale of capital assets.

Net income was \$8.5 million, or \$1.13 per diluted share for the quarter ended December 31, 2020, compared to net loss of \$5.4 million, or (\$0.68) per diluted share in the prior year quarter.

#### Results of Operations for the Six Months Ended December 31, 2020 vs. 2019

Net sales were \$224.3 million for the six months ended December 31, 2020 compared to net sales of \$203.3 million in the prior year six-month period, an increase of 10.4%. The increase in sales of \$21.0 million was primarily driven by \$33.7 million related to home furnishing products sold through retailers and \$6.4 million for home furnishing products sold through e-commerce channels due to the same factors discussed above for the second quarter, partially offset by a decline of \$19.1 million primarily due to the exit from our Vehicle Seating and Hospitality product lines during the fourth quarter of fiscal 2020.

Gross margin as a percent of net sales for the six months ended December 31, 2020 was 21.0%, compared to 16.4% for the prior year six-month period, an increase of 460 bps. The 460 bps increase was primarily driven by the same factors discussed above for the quarter ended December 31, 2020.

Selling, general and administrative expenses decreased \$2.5 million in the six months ended December 31, 2020 compared to the prior year six-month period. As a percentage of net sales, SG&A was 14.7% in the six months ended December 31, 2020 compared to the prior year six month of 17.6%. The six-month period ended December 31, 2020 included a \$1.3 million bad debt expense due to a customer bankruptcy. The 290 bps decline was primarily due to the same factors discussed above for the quarter ended December 31, 2020.

Restructuring expenses were \$2.2 million during the six months ended December 31, 2020, primarily for facility closures, professional fees, and employee termination costs as part of our previously announced transformation program. See Note 4, Restructuring, of the Notes to Consolidated Financial Statements, included in this Quarterly Report on Form 10-Q for more information.

During the six months ended December 31, 2020, we completed the sale of our Dubuque, Iowa, Lancaster, Pennsylvania, and one of our Harrison, Arkansas facilities, resulting in total net proceeds of \$16.4 million, and total gain of \$5.9 million.

Income tax expense was \$5.6 million, or an effective rate of 31.3%, during the six months ended December 31, 2020 compared to income tax expense of \$1.6 million in the prior year six-month period, or an effective tax rate of 28.1%.

Net income was \$12.3 million, or \$1.61 per diluted share for the six months ended December 31, 2020, compared to net income of \$4.2 million, or \$0.51 per diluted share in the prior year six-month period.

Liquidity and Capital Resources

Working capital (current assets less current liabilities) at December 31, 2020 was \$126.3 million compared to \$128.4 million at June 30, 2020. The \$2.1 million decrease in working capital was due to a decrease in cash of \$14.9 million, decline in other current assets of \$6.0 million primarily due to a tax refund, a decline of \$11.7 million in assets held for sale due to sale, and a \$4.9 million increase in payroll and related items due to cash incentive bonuses, partially offset by a \$14.1 million increase in trade receivables and \$21.5 million increase in inventory. The decline in cash of \$14.9 million was primarily due to \$20.0 million share repurchases, cash used in operating activities of \$10.9 million, partially offset by \$18.5 million proceeds from the sale of the Company's Dubuque, IA, Lancaster, PA and Harrison, AR, facilities. Capital expenditures are estimated to be in the range of \$2.0 million to \$3.0 million for the fiscal year ending June 30, 2021.

A summary of operating, investing and financing cash flow is shown in the following table:

<i>(in thousands)</i>	Six Months Ended	
	December 31,	
	2020	2019
Net cash (used in) provided by operating activities	\$ (10,934)	\$ 779
Net cash provided by investing activities	17,864	17,839
Net cash used in financing activities	(21,831)	(3,531)
(Decrease) increase in cash and cash equivalents	\$ (14,901)	\$ 15,087

***Net cash (used in) provided by operating activities***

For the six months ended December 31, 2020, net cash used in operating activities was \$10.9 million, which primarily consisted of net income of \$12.4 million, adjusted for non-cash items including, depreciation of \$2.7 million, gain from the sale of capital assets of \$5.9 million, change in deferred income taxes of \$2.1 million, stock based compensation of \$2.0 million and bad debt expense of \$1.3 million. Net cash used in operating assets and liabilities was \$25.5 million. The cash used in operating assets and liabilities of \$25.5 million, was primarily due to an increase in trade receivables of \$15.4 million due to higher sales, an increase in inventory of \$21.4 million due to inventory build for the third and fourth quarter, partially offset by an increase in accrued liabilities of \$5.0 million and a decline in other current assets of \$6.0 million, primarily due to an income tax refund.

For the six months ended December 31, 2019, net cash provided by operating activities was \$0.8 million, which primarily consisted of net income of \$4.2 million, adjusted for non-cash items including depreciation of \$4.9 million, gain from the sale of capital assets of \$19.0 million and stock based compensation of \$3.3 million. Net cash provided in operating assets and liabilities was \$8.5 million. The cash provided in operating assets and liabilities of \$8.5 million, was primarily due to a decline in inventory of \$7.1 million and other current assets of \$7.1 million, coupled with an increase in accounts payable of \$1.8 million, partially offset by an increase in trade receivables of \$3.2 million and a reduction in accrued liabilities of \$4.2. The decline in other current assets was primarily driven by a tax refund.

***Net cash provided by investing activities***

For the six months ended December 31, 2020, net cash provided by investing activities was \$17.9 million, primarily due to proceeds of \$18.5 million for the sale of our Dubuque, IA and Lancaster, PA, facilities and one of our Harrison, Arkansas facilities, partially offset by capital expenditures of \$0.7 million.

For the six months ended December 31, 2019, net cash provided by investing activities was \$17.8 million, primarily due to proceeds of \$19.6 million from the sale of our Riverside, California facility, partially offset by capital expenditures of \$1.8 million.

***Net cash used in financing activities***

For the six months ended December 31, 2020, net cash used in financing activities was \$21.8 million, primarily due to \$20.0 million for treasury stock purchases and dividends paid of \$1.5 million.

For the six months ended December 31, 2019, net cash used in financing activities was \$3.5 million, primarily due to dividends paid of \$3.5 million.

Line of Credit

On August 28, 2020, we entered into a new two-year secured \$25.0 million revolving line of credit with Dubuque Bank and Trust Company, with interest of 1.50% plus LIBOR, subject to a floor of 3.00%. The revolving line of credit is secured by essentially all of



the Company's assets, excluding real property and requires the Company to maintain compliance with certain financial and non-financial covenants. The revolving line of credit matures on August 28, 2022. There was no outstanding amount under the revolving line of credit as of December 31, 2020.

Letters of credit outstanding at Wells Fargo Bank N.A. ("Wells") as of December 31, 2020, totaled \$1.1 million, of which \$1.3 million of the Company's cash held at Wells is pledged as collateral.

#### Contractual Obligations

As of December 31, 2020, 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, 2020.

### **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, tariffs 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, decrease sales, increase costs and decrease earnings.

*Foreign Currency Risk* – During the quarters ended December 31, 2020 and 2019, the Company did not have sales, but has purchases and other expenses denominated in foreign currencies. The market risk associated with currency exchange rates and prices is not considered significant.

*Interest Rate Risk* – The Company's primary market risk exposure with regard to financial instruments is changes in interest rates. At December 31, 2020, the Company did 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 December 31, 2020.

(b) *Changes in internal control over financial reporting.* During the quarter ended December 31, 2020, 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 have materially affected, or are 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, 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, timing to implement restructuring, the impact of the COVID-19 pandemic 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, 2020.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

On June 1, 2020, the Company’s Board of Directors authorized a \$6 million share repurchase program through June 9, 2021. On August 20, 2020, the Company’s Board of Directors authorized an additional \$8 million share repurchase program to begin on September 4, 2020 through September 3, 2021. On October 22, 2020, the Company’s Board of Directors authorized another \$30 million share repurchase program through October 29, 2023. As of December 31, 2020, the \$6 million and \$8 million repurchase programs were completed. The following table summarized the activity of the common stock repurchases under all three programs as of December 31, 2020. All purchases were made in the open market.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Plans	Approximate Dollar Value of Shares that May Yet Be Purchased
As of June 30, 2020	132,197	\$ 11.83	132,197	\$ 4,429,960
July 1, 2020 to July 31, 2020	155,808	14.46	155,808	2,168,981
August 1, 2020 to August 31, 2020	116,562	17.24	116,562	153,690
September 1, 2020 to September 30, 2020	223,905	21.16	223,905	3,405,667
As of September 30, 2020	628,472	16.81	628,472	3,405,667
October 1, 2020 to October 31, 2020	132,326	25.69	132,326	30,000,000
November 1, 2020 to November 30, 2020	132,831	29.55	132,831	26,067,622
December 1, 2020 to December 31, 2020	101,689	32.69	101,689	22,738,200
As of December 31, 2020	995,318	\$ 21.31	995,318	\$ 22,738,200

**Item 6. Exhibits**

Exhibit No.	
<a href="#">10.1</a>	<a href="#">Amended and Restated Omnibus Stock Plan (incorporated by Reference to the Form 8-K filed with the Securities and Exchange Commission on December 15, 2020).</a>
<a href="#">31.1</a>	<a href="#">Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.*</a>
<a href="#">31.2</a>	<a href="#">Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.*</a>
<a href="#">32</a>	<a href="#">Certification of Chief Executive Officer and Chief Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*</a>
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
104.Cover	Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)
Page	
*	Filed herewith
**	In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall be deemed to be “furnished” and not “filed.”

**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: January 29, 2021

By: /s/ Derek P. Schmidt

Derek P. Schmidt  
Chief Financial Officer and Chief Operating Officer  
(Principal Financial & Accounting Officer)

## CERTIFICATION

I, Jerald K. Dittmer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Flexsteel Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any changes in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit and Ethics Committee of the Registrant's Board of Directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: January 29, 2021

/s/ Jerald K. Dittmer

Jerald K. Dittmer  
Chief Executive Officer

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## CERTIFICATION

I, Derek P. Schmidt, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Flexsteel Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any changes in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit and Ethics Committee of the Registrant's Board of Directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: January 29, 2021

/s/ Derek P. Schmidt

Derek P. Schmidt  
Chief Financial Officer and Chief Operating Officer

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**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**

In connection with the Quarterly Report of Flexsteel Industries, Inc. (the "Company") on Form 10-Q for the quarter ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Jerald K. Dittmer, Chief Executive Officer, and Derek P. Schmidt, Chief Financial Officer and Chief Operating Officer, of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and;
- (2) The information contained in the Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company.

Date: January 29, 2021

/s/ Jerald K. Dittmer  
Jerald K. Dittmer  
Chief Executive Officer

/s/ Derek P. Schmidt  
Derek P. Schmidt  
Chief Financial Officer and Chief Operating Officer

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