

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended December 31, 1996

Commission file number 0-5151

FLEXSTEEL INDUSTRIES, INC.

Incorporated in State of Minnesota

I.R.S. Identification No. 42-0442319

FLEXSTEEL INDUSTRIES, INC.

P. O. BOX 877

DUBUQUE, IOWA 52004-0877

Area code 319 Telephone 556-7730

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, and (2) has been subject to such filing requirements for the past 90 days. Yes  . No. .

Common Stock - \$1.00 Par Value

Shares Outstanding as of December 31, 1996

7,024,201

FLEXSTEEL INDUSTRIES, INC.

CONDENSED BALANCE SHEETS (UNAUDITED)

	DECEMBER 31, 1996	JUNE 30, 1996
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents .....	\$ 4,128,777	\$ 3,867,742
Temporary investments at fair value based on quoted market price .....	9,068,155	8,940,603
Trade receivables - Less allowance for doubtful accounts: December 31, 1996, \$2,235,324; June 30, 1996, \$2,152,810	22,569,371	24,464,171
Inventories .....	26,944,419	26,082,857
Deferred income taxes .....	2,010,000	2,010,000
Other assets .....	601,312	732,054
	-----	-----
Total current assets .....	65,322,034	66,097,427
PROPERTY, PLANT, AND EQUIPMENT - At cost less accumulated depreciation:		
December 31, 1996, \$45,845,796;		
June 30, 1996, \$44,211,432 .....	23,736,320	23,046,224
OTHER ASSETS .....	6,860,109	6,730,513
	-----	-----
TOTAL .....	\$95,918,463	\$95,874,164
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable - trade .....	\$ 3,098,523	\$ 3,574,232
Dividends payable .....	842,892	850,274
Accrued liabilities .....	11,848,199	11,662,410
Industrial revenue bonds payable .....	2,635,000	2,635,000
	-----	-----
Total current liabilities	18,424,614	18,721,916
	-----	-----
LONG-TERM DEBT .....	35,000	35,000

DEFERRED COMPENSATION .....	2,977,747	2,969,847
SHAREHOLDERS' EQUITY:		
Common Stock - \$1 par value; authorized 15,000,000 shares; issued December 31, 7,024,201 shares; June 30, 7,095,044 shares .....	7,024,201	7,095,044
Additional paid-in capital .....	26,075	556,632
Retained earnings .....	67,034,376	66,266,325
Unrealized investment gain .....	396,450	229,400
Total .....	74,481,102	74,147,401
TOTAL .....	\$95,918,463	\$95,874,164

See accompanying Notes.

FLEXSTEEL INDUSTRIES, INC.  
CONDENSED STATEMENTS OF EARNINGS (UNAUDITED)

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	1996	1995	1996	1995
Net Sales.....	\$50,551,568	\$48,177,183	\$102,570,627	\$97,403,911
Operating Expenses:				
Cost of goods sold.....	39,776,718	38,490,613	80,421,319	77,860,040
Selling, general and administrative expenses.....	9,136,183	8,749,440	18,433,562	18,091,706
Total.....	48,912,901	47,240,053	98,854,881	95,951,746
Operating Income.....	1,638,667	937,130	3,715,746	1,452,165
Interest and Other:				
Income.....	334,621	272,116	635,991	515,735
Expense.....	84,895	93,287	171,862	183,845
Net.....	249,726	178,829	464,129	331,890
Earnings Before Income Taxes.....	1,888,393	1,115,959	4,179,875	1,784,055
Provision for Income Taxes.....	685,000	400,000	1,515,000	640,000
Net Earnings.....	\$ 1,203,393	\$ 715,959	2,664,875	1,144,055
Average Number of Common Shares Outstanding.....	7,022,636	7,212,819	7,042,514	7,208,846
Per Share of Common Stock:				
Net Earnings.....	\$ .17	\$ .10	\$ .38	\$ .16
Dividends.....	\$ .12	\$ .12	\$ .24	\$ .24

See accompanying Notes.

FLEXSTEEL INDUSTRIES, INC.  
CONDENSED STATEMENTS OF CASH FLOW (UNAUDITED)

	Six Months Ended	
	December, 31,	
	1996	1995
OPERATING ACTIVITIES:		
Net Income.....	\$2,664,875	\$1,144,055
Adjustments to reconcile net income to net cash provided by operating activities.....	3,218,042	4,010,969
Net cash provided by operating activities.....	5,882,917	5,155,024

INVESTING ACTIVITIES:

Purchases of temporary investments.....	(947,634)	(4,464,215)
Proceeds from sales of temporary investments...	987,133	2,224,549
Additions to property, plant and equipment.....	(3,163,157)	(1,216,468)
	-----	-----
Net cash used in investing activities.....	(3,123,658)	(3,456,134)
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FINANCING ACTIVITIES:

Payment of dividends.....	(1,685,233)	(1,731,111)
Proceeds from issuance of stock (9,157 shares).	77,009	250,273
Repurchase of common stock (80,000 shares).....	(890,000)	
	-----	-----
Net cash used in financing activities.....	(2,498,224)	(1,480,838)
	-----	-----
Increase in cash and cash equivalents.....	261,035	218,052
Cash and cash equivalents at beginning of year....	3,867,742	5,768,537
	-----	-----
Cash and cash equivalents at end of period.....	\$4,128,777	\$5,986,589
	=====	=====

See accompanying Notes.

NOTES (UNAUDITED)

- The accompanying condensed financial statements, which are unaudited, have been prepared in accordance with generally accepted accounting principles applied on a consistent basis, which is consistent with that followed in the financial statements for the year ended June 30, 1996. The statements include all adjustments (comprising only normal recurring accruals) which are, in the opinion of management, necessary to a fair statement of the financial position and results of operations and cash flows, prepared on a summary basis, as of such dates and for the stated dates then ended. The results of operations for the six month period ended December 31, 1996 are not necessarily indicative of the results which may be expected for the year ending June 30, 1997.
- The earnings per share are based on the average number of common shares outstanding during each period.
- The inventories are categorized as follows:

	December 31, 1996 ----	June 30, 1996 ----
Raw materials.....	\$12,975,372	\$12,936,114
Work in process and finished parts.	7,636,439	7,594,621
Finished goods.....	6,332,608	5,552,122
	-----	-----
Total.....	\$26,944,419	\$26,082,857
	=====	=====

- Interest paid during the six month periods ended December 31, 1996 and 1995 was \$52,000 and \$54,000, respectively. Income taxes paid during the six month periods ended December 31, 1996 and 1995 were \$2,157,000 and \$634,000, respectively.
- During the quarter ending September 30, 1995, the Company recorded charges associated with the closing of its manufacturing facility in Sweetwater, TN, and production consolidation of Charisma Chairs in Starkville, MS. The charges recorded and estimated to be incurred are \$470,000, and are included in cost of goods sold for the six months ended December 31, 1995. The net, after tax, charge to earnings is \$300,000, or \$.04 per share.

FLEXSTEEL INDUSTRIES, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE CONDENSED STATEMENT  
OF EARNINGS

Financial Condition - The Company's cash, cash equivalents, and temporary investments at December 31, 1996 increased by \$389,000 from the balances at June 30, 1996. During that same six months, net trade receivables decreased by \$1,895,000 while inventories increased by \$862,000. Capital expenditures were \$3,159,000 for manufacturing and delivery equipment. Working capital decreased by \$478,000 for the six month period. In the next six months approximately

\$2,000,000 will be spent for production related equipment.

Economic Conditions - The Company anticipates that demand for its seating products will continue at current moderate levels over the remainder of the fiscal year. Management continues to focus on internal improvements in the areas of product line simplification, cost savings identification and implementation, and manufacturing process efficiencies. Operating profits should improve as a result of these strategies.

Results of Operations for the Quarter - Sales for the current quarter increased by approximately \$2,375,000 (4.9%), compared to the prior year quarter. Sales volume increased by \$1,704,000 (5.5%) in Home Furnishings and \$982,000 (23.6%) in Commercial Seating products, while Recreational Vehicle products sales decreased by \$311,000 (2.4%). Cost of goods sold for the quarter ended December 31, 1996 increased by \$1,286,000 over the quarter ended December 31, 1995. Sales volume related cost increases were partially offset by approximately \$600,000 in production related efficiency improvements and fixed cost absorption when compared to the prior year quarter. Selling, general, and administrative costs for the current quarter increased by \$387,000 over the same quarter of the prior year due primarily to the increased sales volume. These changes resulted in an increase in net income after taxes of \$487,000, or \$.07 per share, compared to the quarter ended December 31, 1995.

Results of Operations for the Last Six Months - Sales increased by approximately \$5,167,000 (5.3%), compared to the six month period ended December 31, 1995. Sales increased \$2,266,000 (3.6%) in Home Furnishings, Commercial Seating increased \$2,189,000 (27.1%), and Recreational Vehicle increased \$712,000 (2.7%). Cost of goods sold increased by \$2,561,000. Volume related cost increases were offset by approximately \$1,100,000 in production related efficiency improvements and fixed cost absorption as compared to the prior year. In addition, prior year results included pre-tax costs of \$470,000, or \$.04 per share after tax, associated with closing the Sweetwater, TN production facility. Selling, general, and administrative costs increased only \$342,000. The Company was able to absorb approximately \$350,000 of volume related increases primarily due to a lower bad debt provision. In addition, prior year results included costs of approximately \$250,000 associated with development of our Comfort Seating Showroom Program. These changes resulted in an increase in net income after taxes of \$1,521,000, or \$.22 per share, compared to the six month period ended December 31, 1995.

## PART II OTHER INFORMATION

### Submission of Matters to a Vote of Security Holders.

- (a) The Annual Meeting of the shareholders was held on December 10, 1996.
- (b) Four directors were elected at the meeting to serve for three years or until their successors are elected and qualified or until their earlier resignation, removal or termination. Shares were voted as follows:

	FOR	WITHHELD
K. Bruce Lauritsen	5,988,488	29,688
Thomas E. Holloran	5,988,338	29,838
L. Bruce Boylen	5,986,466	31,710
John R. Easter	5,985,966	32,210

- (c) A proposal was made to ratify and approve the appointment of Deloitte & Touche LLP as the Company's independent auditors for 1997. Shares were voted as follows:

FOR	AGAINST	ABSTAIN
5,998,544	16,338	3,294

The registrant did not file a report on Form 8-K during the quarter for which this report is filed.

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 officer thereunto duly authorized.

FLEXSTEEL INDUSTRIES, INC.

Date: February 13, 1997

By: /s/ R. J. Klosterman

R. J. Klosterman  
Financial Vice President &  
Principal Financial Officer

3-MOS  
JUN-30-1997  
DEC-31-1996  
4,128,777  
9,068,155  
24,804,695  
2,235,324  
26,944,419  
65,322,034  
69,582,116  
45,845,796  
95,918,463  
18,424,614  
35,000  
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7,024,201  
67,456,901  
95,918,463  
50,551,568  
50,886,189  
39,776,718  
48,912,901  
9,136,183  
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84,895  
1,888,393  
685,000  
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1,203,393  
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