

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, 2022

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 the 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 a 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 February 8, 2023

5,177,386

FLEXSTEEL INDUSTRIES, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED DECEMBER 31, 2022

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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, 2022	June 30, 2022
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,774	\$ 2,184
Trade receivables - less allowances: December 31, 2022, \$2,880, June 30, 2022, \$2,980	32,665	41,106
Inventories	110,825	141,212
Other	6,908	4,950
Assets held for sale	616	616
Total current assets	152,788	190,068
NONCURRENT ASSETS:		
Property, plant and equipment, net	38,065	38,543
Operating lease right-of-use assets	69,201	38,189
Other assets	1,941	1,941
TOTAL ASSETS	\$ 261,995	\$ 268,741
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable - trade	\$ 17,638	\$ 32,147
Current portion of operating lease liabilities	8,027	6,361
Accrued liabilities:		
Payroll and related items	5,441	6,385
Insurance	2,636	2,158
Restructuring costs	—	1,290
Advertising	5,004	4,052
Environmental remediation	—	3,570
Other	6,956	8,664
Total current liabilities	45,702	64,627
LONG-TERM LIABILITIES:		
Operating lease liabilities, less current maturities	64,480	33,992
Lines of credit	19,173	37,739
Other liabilities	553	823
Total liabilities	129,908	137,181
SHAREHOLDERS' EQUITY:		
Common stock - \$1 par value; authorized 15,000 shares; 8,239 shares issued and 5,201 outstanding as of December 31, 2022; 8,190 shares issued and 5,300 outstanding as of June 30, 2022	8,239	8,190
Additional paid-in capital	35,681	34,467
Treasury stock, at cost; 3,038 shares, and 2,890 shares as of December 31, 2022, and June 30, 2022, respectively	(68,598)	(66,372)
Retained earnings	156,765	155,275
Total shareholders' equity	132,087	131,560
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 261,995	\$ 268,741

See accompanying Notes to Consolidated Financial Statements (Unaudited).

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
Net sales	\$ 93,137	\$ 141,668	\$ 188,821	\$ 279,356
Cost of goods sold	77,299	132,141	157,634	246,419
Gross margin	15,838	9,527	31,187	32,937
Selling, general and administrative expenses	14,864	17,541	29,438	36,326
Environmental remediation	(2,788)	—	(2,788)	—
Restructuring expense	—	622	—	774
Other expense	—	—	347	—
Gain on disposal of assets due to restructuring	—	—	—	(1,400)
Operating income (loss)	3,762	(8,636)	4,190	(2,763)
Interest expense	316	223	637	426
Other (income) expense	(1)	(104)	1	(102)
Income (loss) before income taxes	3,447	(8,755)	3,552	(3,087)
Income tax provision (benefit)	594	(1,210)	410	105
Net income (loss) and comprehensive income (loss)	\$ 2,853	\$ (7,545)	\$ 3,142	\$ (3,192)
Weighted average number of common shares outstanding:				
Basic	5,259	6,682	5,285	6,758
Diluted	5,339	6,682	5,436	6,758
Earnings (loss) per share of common stock:				
Basic	\$ 0.54	\$ (1.13)	\$ 0.59	\$ (0.47)
Diluted	\$ 0.53	\$ (1.13)	\$ 0.58	\$ (0.47)

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, 2022				
	Total Par Value of Common Shares (\$1 Par)	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Total
Balance on June 30, 2022	\$ 8,190	\$ 34,467	\$ (66,372)	\$ 155,275	\$ 131,560
Stock-based compensation	8	817	—	—	825
Vesting of restricted stock units and restricted shares	28	(378)	—	—	(350)
Treasury stock purchases	—	—	(403)	—	(403)
Cash dividends declared	—	—	—	(833)	(833)
Net income	—	—	—	289	289
Balance on September 30, 2022	<u>\$ 8,226</u>	<u>\$ 34,906</u>	<u>\$ (66,775)</u>	<u>\$ 154,731</u>	<u>\$ 131,088</u>
Stock-based compensation	10	835	—	—	845
Vesting of restricted stock units and restricted shares	3	(60)	—	—	(57)
Treasury stock purchases	—	—	(1,823)	—	(1,823)
Cash dividends declared	—	—	—	(819)	(819)
Net income	—	—	—	2,853	2,853
Balance on December 31, 2022	<u>\$ 8,239</u>	<u>\$ 35,681</u>	<u>\$ (68,598)</u>	<u>\$ 156,765</u>	<u>\$ 132,087</u>

	Six Months Ended December 31, 2021				
	Total Par Value of Common Shares (\$1 Par)	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Total
Balance on June 30, 2021	\$ 8,133	\$ 34,015	\$ (31,320)	\$ 157,140	\$ 167,968
Stock-based compensation	3	1,159	—	—	1,162
Vesting of restricted stock units and restricted shares	7	(257)	—	—	(250)
Treasury stock purchases	—	—	(1,915)	—	(1,915)
Cash dividends declared	—	—	—	(1,047)	(1,047)
Net income	—	—	—	4,353	4,353
Balance on September 30, 2021	<u>\$ 8,143</u>	<u>\$ 34,917</u>	<u>\$ (33,235)</u>	<u>\$ 160,446</u>	<u>\$ 170,271</u>
Stock-based compensation	4	1,016	—	—	1,020
Vesting of restricted stock units and restricted shares	(2)	(42)	—	—	(44)
Stock options exercised	8	110	—	—	118
Treasury stock purchases	—	—	(7,743)	—	(7,743)
Cash dividends declared	—	—	—	(1,013)	(1,013)
Net income	—	—	—	(7,545)	(7,545)
Balance on December 31, 2021	<u>\$ 8,153</u>	<u>\$ 36,001</u>	<u>\$ (40,978)</u>	<u>\$ 151,888</u>	<u>\$ 155,064</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,	
	2022	2021
OPERATING ACTIVITIES:		
Net income (loss)	\$ 3,142	\$ (3,192)
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	2,277	2,662
Stock-based compensation expense	1,670	2,182
Change in provision for losses on accounts receivable	(100)	190
(Gain) on disposal of assets	—	(1,887)
Changes in operating assets and liabilities:		
Trade receivables	8,541	5,795
Inventories	30,387	(17,917)
Other current assets	(1,958)	1,021
Other assets	—	(508)
Accounts payable - trade	(14,132)	(29,521)
Accrued liabilities	(4,914)	720
Other long-term liabilities	(271)	(543)
Net cash provided by (used in) operating activities	<u>24,642</u>	<u>(40,998)</u>
INVESTING ACTIVITIES:		
Proceeds from the sale of capital assets	—	1,937
Capital expenditures	(2,176)	(1,535)
Net cash (used in) provided by investing activities	<u>(2,176)</u>	<u>402</u>
FINANCING ACTIVITIES:		
Dividends paid	(1,678)	(3,060)
Treasury stock purchases	(2,226)	(9,658)
Proceeds from lines of credit	166,933	81,247
Payments on lines of credit	(185,498)	(25,013)
Proceeds from issuance of common stock	—	118
Shares withheld for tax payments on vested restricted shares	(407)	(293)
Net cash (used in) provided by financing activities	<u>(22,876)</u>	<u>43,341</u>
(Decrease) increase in cash and cash equivalents	(410)	2,745
Cash and cash equivalents at beginning of the period	2,184	1,342
Cash and cash equivalents at end of the period	<u>\$ 1,774</u>	<u>\$ 4,087</u>
SUPPLEMENTAL INFORMATION		
Cash paid for amounts included in lease liabilities	\$ 4,224	\$ 3,059
Right-of-use assets exchanged for lease liabilities	\$ 35,305	\$ 16,814
Interest paid	\$ 823	\$ 351
Income taxes, net	\$ 1,993	\$ (1,719)
Capital expenditures in accounts payable	\$ 15	\$ (160)

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, 2022

1. BASIS OF PRESENTATION AND DESCRIPTION OF BUSINESS

DESCRIPTION OF BUSINESS – Flexsteel Industries, Inc. and Subsidiaries (the “Company” or “Flexsteel” or “Our”) is one of the largest manufacturers, importers, and marketers of furniture products in the United States. Product offerings include a wide variety of furniture such as sofas, loveseats, chairs, reclining rocking chairs, swivel rockers, sofa beds, convertible bedding units, occasional tables, desks, dining tables and chairs, kitchen storage, bedroom furniture and outdoor 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 sales force.

BASIS OF PRESENTATION – The unaudited Consolidated Financial Statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The information contained 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, 2022, are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2023. 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 in Note 1 to the Consolidated Financial Statements in the Company’s Annual Report on Form 10-K for the year ended June 30, 2022, appropriately represent, in all material respects, the current status of accounting policies.

2. INVENTORIES

A comparison of inventories is as follows:

<i>(in thousands)</i>	December 31, 2022	June 30, 2022
Raw materials	\$ 13,806	\$ 16,405
Work in process and finished parts	4,175	5,534
Finished goods	92,844	119,273
Total	<u>\$ 110,825</u>	<u>\$ 141,212</u>

3. ASSETS HELD FOR SALE

During the fiscal year 2020, the Company committed to a plan to sell assets located at the Company’s Starkville, Mississippi location as part of the Company’s restructuring plan, see Note 5 Restructuring. As of December 31, 2022, the Company continues to actively market the assets in Starkville, Mississippi. A summary of the assets held for sale as of December 31, 2022, is included in the table below.

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 assets held for sale	<u>\$ 5,309</u>	<u>\$ (4,693)</u>	<u>\$ 616</u>

4. LEASES

The Company accounts for its leases in accordance with 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 ROU asset and lease liability, the discount rate utilized by the Company was based on the average interest rates effective for the Company's line of credit. 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.

During the second quarter of fiscal year 2023, Flexsteel entered into a lease agreement for a showroom in Las Vegas, Nevada. The four-year lease term began on October 1, 2022, and ends on September 30, 2026.

On August 20, 2021, Flexsteel entered into a lease agreement for the construction of a 507,830 square foot manufacturing facility in Mexicali, Mexico. The lease commencement date under ASC 842 guidance was on July 1, 2022, the date the lessor made the building available for use by the Company for purposes of completing any leasehold improvements required by the Company prior to beginning operations. The 12-year lease term began on August 1, 2022, and ends on June 30, 2034, with options for two five-year extensions. Annual base rent under the lease is \$3.2 million plus taxes, insurance and common area maintenance costs.

The components of the Company's leases reflected on the Company's Consolidated Statements of Income were as follows:

<i>(in thousands)</i>	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2022	2021	2022	2021
Operating lease expense	\$ 2,700	\$ 1,821	\$ 5,366	\$ 3,210
Variable lease expense	490	467	908	542
Total lease expense	\$ 3,190	\$ 2,288	\$ 6,274	\$ 3,752

Other information related to leases and future minimum lease payments under non-cancellable operating leases were as follows:

<i>(in thousands)</i>	Six Months Ended	
	December 31, 2022	December 31, 2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 4,224	\$ 3,059
Right-of-use assets obtained in exchange for lease liabilities:		
Operating leases	\$ 35,305	\$ 16,814
Weighted-average remaining lease term (in years):		
Operating leases	4.9	4.7
Weighted-average discount rate:		
Operating leases	3.3%	2.5%

Future minimum lease payments under non-cancellable operating leases were as follows:

	<u>December 31, 2022</u>
<i>(in thousands)</i>	
Remaining payments in FY2023	\$ 5,371
FY2024	9,589
FY2025	7,989
FY2026	7,762
FY2027	7,778
Thereafter	44,934
Total future minimum lease payments	<u>\$ 83,423</u>
Less imputed interest	10,916
Lease liability	<u>\$ 72,507</u>

5. 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 by 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 included the previously announced restructuring activities on May 15, 2019. The transformation program included activities such as business simplification, process improvement, exiting of non-core businesses, facility closures, and reductions in the workforce. The Company substantially completed the restructuring activities related to the exit of the Commercial Office and custom-designed Hospitality product lines during fiscal 2020.

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

These actions are now complete, with one property remaining as held for sale as discussed in Note 3, *Assets Held for Sale*. The Company incurred \$59.4 million of expenses related to this restructuring program over the two-year timeframe ended June 30, 2022 and does not anticipate any further charges.

The following is a summary of restructuring costs:

<i>(in thousands)</i>	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>December 31, 2022</u>	<u>December 31, 2021</u>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Other associated costs	\$ —	\$ 622	\$ —	\$ 774
Total restructuring and related expenses	<u>\$ —</u>	<u>\$ 622</u>	<u>\$ —</u>	<u>\$ 774</u>
Reported as:				
Operating expenses	\$ —	\$ 622	\$ —	\$ 774

Other associated costs include legal and professional fees as well as facilities and transition costs.

On March 22, 2021, the Company received notice of a class action lawsuit filed against Flexsteel Industries, Inc., and J.K. Dittmer and D.P. Schmidt as individuals, by a number of employees who had worked at the Dubuque Operations and Starkville plants prior to the closure of the locations due to the impact of COVID-19 on the business at that period of time. The allegations with the claim include failure to pay employee benefits as required by an ERISA-governed severance plan, failure of J.K. Dittmer and D.P. Schmidt to act with respect to the ERISA-governed severance plan, and failure to provide 60-days' notice or the equivalent amount of pay to the employees required by the WARN Act when the Company closed the Dubuque and Starkville locations. The parties participated in a lengthy mediation and on December 3, 2021, agreed to resolve the matter for \$1.3 million. The matter was dismissed with prejudice on September 1, 2022. The Company paid \$1.3 million during the three and six months ended December 31, 2022.

During the quarter ended September 30, 2022, the Company paid all remaining costs associated with the restructuring program.

The roll-forward of the accrued restructuring costs is as follows:

<i>(in thousands)</i>	One-time Employee Termination Benefits	Other Associated Costs	Total
Accrual balance on June 30, 2022	\$ 1,275	\$ 15	\$ 1,290
Expenses reimbursed (paid)	(1,275)	(15)	(1,290)
Accrual balance on December 31, 2022	\$ —	\$ —	\$ —

6. CREDIT ARRANGEMENTS

On August 28, 2020, the Company entered a two-year secured \$25.0 million revolving line of credit with Dubuque Bank and Trust Company, with an interest rate of 1.50% plus LIBOR, subject to a floor of 3.00%. The revolving line of credit was secured by essentially all the Company's assets, excluding real property, and required the Company to maintain compliance with certain financial and non-financial covenants. This line of credit was subsequently canceled in the first quarter of the fiscal year 2022.

On September 8, 2021, the Company, as the borrower, entered into a credit agreement (the "Credit Agreement") with Wells Fargo Bank, National Association (the "Lender"), and the other lenders party thereto. The Credit Agreement has a five-year term and provides for up to an \$85 million revolving line of credit. Subject to certain conditions, the Credit Agreement also provides for the issuance of letters of credit in an aggregate amount up to \$5 million which, upon issuance, would be deemed advances under the revolving line of credit. The Company's \$1.1 million letters of credit previously issued by the Lender are being treated as outstanding under the Credit Agreement and reduce the amount of available borrowings under the revolving line of credit. Proceeds of borrowings were used to refinance all indebtedness owed to Dubuque Bank & Trust and for working capital purposes. The Company's obligations under the Credit Agreement are secured by substantially all its assets, excluding real property. Subject to certain conditions, borrowings under the Credit Agreement bear interest at LIBOR plus 1.25% or 1.50% per annum, or an effective interest rate of 5.6% on December 31, 2022. When LIBOR becomes unavailable, the replacement rate will be determined pursuant to the terms of the Credit Agreement. The Credit Agreement contains customary representations, warranties, and covenants, including a financial covenant to maintain a fixed coverage ratio of not less than 1.00 to 1.00. In addition, the Loan Agreement places restrictions on the Company's ability to incur additional indebtedness, to create liens or other encumbrances, to sell or otherwise dispose of assets, and to merge or consolidate with other entities. As of December 31, 2022, the Company was in compliance with all covenants.

On April 18, 2022, the Company, as the borrower, entered into a first amendment to the September 8, 2021, Credit Agreement ("First Amendment to the Credit Agreement"), with the Lender and the lenders thereto. The amendment to the Credit Agreement changed the definition of the term 'Payment Conditions' and further defines "default" or "event of default" and the calculation of the Fixed Charge Coverage Ratio.

As of December 31, 2022, there was \$19.2 million outstanding under the Credit Agreement, exclusive of fees and letters of credit.

Letters of credit outstanding at the Lender as of December 31, 2022, totaled \$1.1 million.

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, 2022, and December 31, 2021, was 17.2% and 13.8%, respectively, and for the six months ended December 31, 2022, and December 31, 2021, was 11.5% and (3.4%), respectively. For the three and six months ended December 31, 2022, the effective tax rate differs from the statutory tax rate of 21% due to nondeductible stock compensation, state taxes, the impacts associated with uncertain tax positions, as well as impacts arising from the reversal of the valuation allowance associated with movements in certain deferred tax assets. For the three and six months ended December 31, 2021, the effective tax rate differed from the statutory tax rate of 21% due to the tax benefit on the year-to-date loss not being recorded due to the Company's valuation allowance position.

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 upon vesting. Stock-based compensation is included in selling, general and administrative expenses on the Consolidated Statements of Income and Comprehensive Income. Forfeitures are recognized as incurred.

The following table is a summary of total stock-based compensation expenses for the three and six months ended December 31, 2022.

<i>(in thousands)</i>	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2022	2021	2022	2021
Total stock-based compensation expense	\$ 845	\$ 1,020	\$ 1,670	\$ 2,182

On December 14, 2022, the Company’s shareholders approved the Flexsteel Industries, Inc. 2022 Equity Incentive Plan (“2022 Plan”). The 2022 Plan is a long-term incentive plan pursuant to which awards may be granted to certain employees, independent contractors and directors of the Company, in the form of stock options, stock appreciation rights, restricted stock, restricted stock units, performance units, performance shares or other stock-based awards. No awards have been granted under the 2022 Plan as of December 31, 2022.

The 2022 Plan replaces the Long-Term Incentive Compensation Plan (“LTIP”) and the 2013 Omnibus Stock Plan (collectively, the “Prior Plans”) and no further awards will be made under either of the Prior Plans, but these Prior Plans will continue to govern awards previously granted under them.

(1) Long-Term Incentive Compensation Plan

The LTIP provides for performance stock units (“PSUs”) to be awarded to officers and key employees based on performance goals set by the Compensation Committee of the Board of Directors (the “Committee”). For awards under the LTIP for the three years ending June 30, 2023, 2024, and 2025, participants may earn one-third of the award in each of the three years based on meeting performance goals for that year. The Committee selected Adjusted Earnings Before Interest and Tax based on a defined percentage growth in fiscal years 2023, 2024, and 2025 as the performance metric. In conjunction with each grant of PSUs, the Committee grants RSUs under the 2013 Omnibus Stock Plan that vest at the end of three years.

The table below sets forth, as of December 31, 2022, the number of unvested PSUs granted at the target performance level for the 2021-2023, 2022-2024 and 2023-2025 performance periods under the LTIP and the number of unvested RSUs granted in conjunction with the PSUs:

<i>(shares in thousands)</i>	Time-Based Vest (RSUs)		Performance-Based Vest (PSUs)		Total	
	Shares	Weighted Average Fair Value Per Share	Shares	Weighted Average Fair Value Per Share	Shares	Weighted Average Fair Value Per Share
Unvested as of June 30, 2022	86	\$ 19.53	174	\$ 18.87	260	\$ 19.09
Granted	63	19.27	91	19.27	154	19.27
Vested	—	—	(44)	17.23	(44)	17.23
Forfeited	(1)	26.19	(1)	26.19	(2)	26.19
Unvested as of December 31, 2022	148	\$ 19.40	220	\$ 19.27	368	\$ 19.32

Total unrecognized stock-based compensation related to the unvested PSUs at the target performance level and the related unvested RSUs was \$3.2 million as of December 31, 2022, which is expected to be recognized over a weighted-average period of 1.5 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 (not granted in conjunction with PSUs) during the six months ended December 31, 2022, is as follows:

	Shares (in thousands)	Weighted Average Fair Value Per Share
Unvested as of June 30, 2022	35	\$ 26.72
Granted	55	19.17
Vested	(17)	23.62
Forfeited	(1)	19.77
Unvested as of December 31, 2022	<u>72</u>	<u>\$ 21.78</u>

Total unrecognized stock-based compensation related to unvested restricted shares and unvested RSUs (not granted in conjunction with the PSUs) was \$1.0 million as of December 31, 2022, which is expected to be recognized over a weighted-average period of 1.4 years.

Options

A summary of the activity of the Company's stock option plans as of December 31, 2022, is presented below:

	Shares (in thousands)	Weighted Average Exercise Price
Outstanding at June 30, 2022	215	\$ 21.50
Granted	—	—
Exercised	—	—
Canceled	(13)	30.20
Outstanding at December 31, 2022	<u>202</u>	<u>\$ 20.95</u>

The following table summarizes information for options outstanding at December 31, 2022:

Range of Prices	Options Outstanding (in thousands)	Weighted Average	
		Remaining Life (Years)	Exercise Price
\$ 9.97 - 15.14	97	7.2	\$ 12.64
18.30 - 19.72	6	8.4	18.30
21.96 - 27.57	57	4.4	24.18
31.06 - 32.80	29	2.7	32.27
43.09 - 47.45	13	3.7	45.28
\$ 9.97 - 47.45	<u>202</u>	<u>5.6</u>	<u>\$ 20.95</u>

The total unrecognized stock-based compensation expense related to options was \$0.03 million as of December 31, 2022, which is expected to be recognized over a weighted-average period of 0.3 years.

Stock-Based Compensation Granted Outside a Plan

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. All 79,000 options remain outstanding as of December 31, 2022, with an exercise price of \$9.97 and a remaining life of 7.3 years. The total unrecognized stock-based compensation expense related to options awarded outside a plan was \$0.01 million as of December 31, 2022, which is expected to be recognized over a weighted-average period of 0.3 years.

During the quarter ended December 31, 2018, the Company awarded its Chief Executive Officer 55,000 options outside of any Company stock plans. All 55,000 options remain outstanding as of December 31, 2022, with an exercise price of \$21.96 and a remaining life of 6.0 years. There is no remaining unrecognized stock-based compensation expense related to these options.

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,	
	2022	2021	2022	2021
Basic shares	5,259	6,682	5,285	6,758
Potential common shares:				
Stock options	45	—	52	—
Non-vested restricted stock units and restricted shares	35	—	99	—
	80	—	151	—
Diluted shares	5,339	6,682	5,436	6,758
Anti-dilutive shares	161	—	161	—

Cash dividends declared per common share were \$0.15 and \$0.30 for the three and six months ended December 31, 2022, respectively, and were \$0.15 and \$0.30 for the three and six months ended December 31, 2021, respectively.

10. COMMITMENTS AND CONTINGENCIES

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.

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.

Despite the Company's position that it did not cause or contribute to the contamination, the Company reached a settlement with the EPA and the State of Indiana, which was filed as a consent decree in the U.S. District Court for the Northern District of Indiana on October 24, 2022. The consent decree required Flexsteel to pay \$9.8 million in resolution of the matter. Flexsteel also reached agreements with its insurance carriers for partial reimbursement of the settlement. As of December 31, 2022, the Company has made full payment in accordance with the settlement agreement and as a result of insurance proceeds received, the Company recorded income of \$2.8 million for the quarter ended December 31, 2022, included in environmental remediation on the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

Other Proceedings – From time to time, the Company is subject to various other legal proceedings, including lawsuits, which arise out of, and are incidental to, the conduct of the Company's business. The Company does not consider any of such other proceedings that are currently pending, individually or in the aggregate, to be material to its business or likely to result in a material effect on its consolidated operating results, financial condition, or cash flows.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**GENERAL**

The following analysis of the results of operations and financial condition of the Company should be read in conjunction with the Consolidated Financial Statements and related notes included elsewhere in this quarterly report on Form 10-Q.

CRITICAL ACCOUNTING POLICIES:

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", included in our 2022 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, 2022, and 2021. The amounts presented are percentages of the Company’s net sales.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold	83.0	93.3	83.5	88.2
Gross margin	17.0	6.7	16.5	11.8
Selling, general and administrative expenses	16.0	12.4	15.6	13.0
Environmental remediation	(3.0)	—	(1.5)	—
Restructuring expense	—	0.4	—	0.3
Other expense	—	—	0.2	—
Gain on disposal of assets due to restructuring	—	—	—	(0.5)
Operating income (loss)	4.0	(6.1)	2.2	(1.0)
Interest expense	0.3	0.2	0.3	0.2
Other (income) expense	(0.0)	(0.1)	0.0	(0.0)
Income (loss) before income taxes	3.7	(6.2)	1.9	(1.2)
Income tax provision (benefit)	0.6	(0.9)	0.2	0.0
Net income (loss) and comprehensive income (loss)	3.1 %	(5.3)%	1.7 %	(1.2)%

Results of Operations for the Quarter Ended December 31, 2022 vs. 2021

Net sales were \$93.1 million for the quarter ended December 31, 2022, compared to net sales of \$141.7 million in the prior year quarter, a decrease of 34.3%. The decrease in sales of \$48.5 million was primarily driven by a decrease of \$42.1 million related to home furnishing products sold through retailers and a decrease of \$6.4 million for home furnishing products sold through e-commerce channels, compared to the prior year quarter. Home furnishing sales have reverted to be in-line with pre-pandemic volumes as prior year quarter sales were especially strong due to the surge in COVID-induced spending on home furniture.

Retail home furnishings backlog was \$60 million as of the quarter ended December 31, 2022, a decrease of 50.4% as compared to \$121 million home furnishings backlog in the prior year quarter mainly due to focus of the organization to reduce backlog down to 3-5 week lead times and softness of consumer demand in the quarter.

Gross margin as a percent of net sales for the quarter ended December 31, 2022, was 17.0%, compared to 6.7% for the prior year quarter, an increase of 1,030 basis points (“bps”). The 1,030-bps increase was primarily due to a decline in ancillary charges, partially offset by the decline in sales volume in the quarter as compared to the prior year quarter.

Selling, general and administrative (“SG&A”) expenses decreased \$2.7 million or 15.3% to \$14.9 million in the second quarter ended December 31, 2022, as compared to \$17.5 million in the second quarter of fiscal 2022. The decrease is primarily due to a decrease in sales volume related expenses of \$1.3 million and a decrease in all other expenses of \$1.4 million in the second quarter of fiscal year 2023. As a percentage of net sales, SG&A was 16.0% in the second quarter of fiscal 2023 compared to 12.4% of net sales in the prior year quarter. The 360-bps increase was primarily due to lower sales volume, partially offset by a decrease in certain fixed expenses for the three months ended December 31, 2022.

During the quarter ended December 31, 2022, the Company recorded income of \$2.8 million as a result of insurance proceeds received related to the settlement of the environmental remediation liability. See Note 10, Commitments and Contingencies, of the Notes to Consolidated Financial Statements, included in this Quarterly Report on Form 10-Q for more information.

During the quarter ended December 31, 2022, no additional restructuring expenses were realized for our facilities listed as held for sale. See Note 5, Restructuring, of the Notes to Consolidated Financial Statements, included in this Quarterly Report on Form 10-Q for more information.

Income tax expense was \$0.6 million, or an effective rate of 17.2% for the quarter ended December 31, 2022, compared to an income tax benefit of \$1.2 million, or an effective rate of 13.8% during the quarter ended December 31, 2021. The effective tax rate for the quarter ended December 31, 2022 was primarily impacted by the reversal of the valuation allowance associated with movements in certain deferred tax assets.

Net income was \$2.9 million, or \$0.53 per diluted share for the quarter ended December 31, 2022, compared to net loss of \$7.5 million, or (\$1.13) per diluted share in the prior year.

Results of Operations for the Six Months Ended December 31, 2022, vs. 2021

Net sales were \$188.8 million for the six months ended December 31, 2022, compared to net sales of \$279.4 million in the prior-year six-month period, a decrease of 32.4%. The decrease in sales of \$90.5 million was primarily driven by \$80.8 million related to home furnishing products sold through retailers and \$9.7 million for home furnishing products sold through e-commerce channels. The sales decrease was primarily driven by the same factors discussed above for the quarter ended December 31, 2022.

Gross margin as a percent of net sales for the six months ended December 31, 2022, was 16.5%, compared to 11.8% for the prior-year six-month period, an increase of 470 bps. The 470-bps increase was primarily driven by the same factors discussed above for the quarter ended December 31, 2022.

Selling, general and administrative expenses decreased \$6.9 million in the six months ended December 31, 2022, compared to the prior-year six-month period. The decrease is primarily due to a decrease in sales volume related expenses of \$2.9 million and a decrease in all other expenses of \$4.0 million in the second quarter of fiscal year 2023. As a percentage of net sales, SG&A was 15.6% in the six months ended December 31, 2022, compared to the prior-year six-month period of 13.0%. The 260-bps increase was primarily due to lower sales volume, partially offset by a decrease in certain fixed expenses for the six months ended December 31, 2022.

During the six months ended December 31, 2022, the Company recorded income of \$2.8 million related to the settlement of the environmental remediation liability. See Note 10, Commitments and Contingencies, 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, 2022, no additional restructuring expenses were realized for our facilities listed as held for sale. See Note 5, 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, 2021, we completed the sale of one of our Harrison, Arkansas facilities, resulting in total net proceeds of \$1.45 million, and a total gain of \$1.4 million.

Income tax expense was \$0.4 million, or an effective rate of 11.5%, during the six months ended December 31, 2022, compared to income tax expense of \$0.1 million in the prior-year six-month period, or an effective tax rate of (3.4%). The effective tax rate for the six months ended December 31, 2022, was primarily impacted by adjustments to uncertain tax positions, as well as the reversal of the valuation allowance associated with movements in certain deferred tax assets.

Net income was \$3.1 million, or \$0.58 per diluted share for the six months ended December 31, 2022, compared to net loss of \$3.2 million, or (\$0.47) per diluted share in the prior-year six-month period.

Liquidity and Capital Resources

Working capital (current assets less current liabilities) on December 31, 2022, was \$107.1 million compared to \$125.4 million on June 30, 2022. The \$18.3 million decrease in working capital was primarily due to a decrease in inventory of \$30.4 million, a decrease in net trade receivables of \$8.4 million, partially offset by a decrease in accounts payable of \$14.5 million, a decrease in the environmental liability of \$3.6 million, an increase in other current assets of \$2.0 million, a decrease in other current liabilities of \$1.7

million, and a decrease in the restructuring liability of \$1.3 million. Refer to discussion of working capital changes below, under *Net cash provided by (used in) operating activities*. Capital expenditures were \$2.2 million during the six months ended December 31, 2022.

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

<i>(in thousands)</i>	Six Months Ended	
	December 31,	
	2022	2021
Net cash provided by (used in) operating activities	\$ 24,642	\$ (40,998)
Net cash (used in) provided by investing activities	(2,176)	402
Net cash (used in) provided by financing activities	(22,876)	43,341
(Decrease) increase in cash and cash equivalents	\$ (410)	\$ 2,745

Net cash provided by (used in) operating activities

For the six months ended December 31, 2022, net cash provided by operating activities was \$24.6 million, which primarily consisted of net income of \$3.1 million, adjusted for non-cash items including depreciation of \$2.3 million, and stock-based compensation of \$1.7 million. Net cash provided by operating assets and liabilities was \$17.7 million and was primarily due to a decrease in inventories of \$30.4 million, and a decrease in trade receivables of \$8.5 million, partially offset by a decrease in accrued liabilities of \$4.9 million, a decrease in payables of \$14.1 million, an increase in other current assets of \$2.0 million, and a decrease in other long-term liabilities of \$0.3 million. Sales volume declines have driven the decrease in trade receivables, as well as decreased inventory purchases driving declines in inventory and payables. Accrued liabilities declined primarily due to the environmental remediation settlement.

For the six months ended December 31, 2021, net cash used in operating activities was \$41.0 million, which primarily consisted of net loss of \$3.2 million, adjusted for non-cash items including depreciation of \$2.7 million, gain from the sale of capital assets of \$1.9 million, stock-based compensation of \$2.2 million, and provisions for losses of \$0.2 million. Net cash used in operating assets and liabilities was \$41.0 million and was primarily due to an increase in inventory of \$17.9 million due to continued inventory build, a decrease in accounts payable of \$29.5 million, an increase in other current assets of \$0.5 million, an increase in other liabilities of \$0.1 million, and partially offset by a decrease in trade receivables of \$5.8 million.

Net cash (used in) provided by investing activities

For the six months ended December 31, 2022, net cash used in investing activities was \$2.2 million, due to capital expenditures of \$2.2 million.

For the six months ended December 31, 2021, net cash provided by investing activities was \$0.4 million, primarily due to proceeds of \$1.94 million from the sale of our Harrison, Arkansas, facility and the sale of our transportation fleet equipment, partially offset by capital expenditures of \$1.54 million.

Net cash (used in) provided by financing activities

For the six months ended December 31, 2022, net cash used in financing activities was \$22.9 million, primarily due to payments on lines of credit of \$185.5 million, partially offset by proceeds from lines of credit of \$166.9 million. In addition to the line of credit activity, net cash used in financing activities was also due to \$2.2 million for treasury stock purchases, dividends paid of \$1.7 million, and \$0.4 million for tax payments on employee vested restricted shares netted with proceeds from the issuance of common stock.

For the six months ended December 31, 2021, net cash provided by financing activities was \$43.3 million, primarily due to proceeds from lines of credit of \$81.3 million, offset by payments on lines of credit of \$25.0 million, \$9.7 million for treasury stock purchases, dividends paid of \$3.1 million, and \$0.2 million for tax payments on employee vested restricted shares.

Line of Credit

On August 28, 2020, the Company entered a two-year secured \$25.0 million revolving line of credit with Dubuque Bank and Trust Company, with an interest rate of 1.50% plus LIBOR, subject to a floor of 3.00%. The revolving line of credit was secured by essentially all the Company's assets, excluding real property, and required the Company to maintain compliance with certain financial and non-financial covenants. This line of credit was subsequently canceled in the first quarter of the fiscal year 2022.

On September 8, 2021, the Company, as the borrower, entered into a credit agreement (the "Credit Agreement") with Wells Fargo Bank, National Association (the "Lender"), and the other lenders party thereto. The Credit Agreement has a five-year term and provides for up to an \$85 million revolving line of credit. Subject to certain conditions, the Credit Agreement also provides for the issuance of letters

of credit in an aggregate amount up to \$5 million which, upon issuance, would be deemed advances under the revolving line of credit. The Company's \$1.1 million letters of credit previously issued by the Lender are being treated as outstanding under the Credit Agreement and reduce the amount of available borrowings under the revolving line of credit. Proceeds of borrowings were used to refinance all indebtedness owed to Dubuque Bank & Trust and for working capital purposes. The Company's obligations under the Credit Agreement are secured by substantially all its assets, excluding real property. Subject to certain conditions, borrowings under the Credit Agreement bear interest at LIBOR plus 1.25% or 1.50% per annum, or an effective interest rate of 5.6% on December 31, 2022. When LIBOR becomes unavailable, the replacement rate will be determined pursuant to the terms of the Credit Agreement. The Credit Agreement contains customary representations, warranties, and covenants, including a financial covenant to maintain a fixed coverage ratio of not less than 1.00 to 1.00. In addition, the Loan Agreement places restrictions on the Company's ability to incur additional indebtedness, to create liens or other encumbrances, to sell or otherwise dispose of assets, and to merge or consolidate with other entities. As of December 31, 2022, the Company was in compliance with all covenants.

On April 18, 2022, the Company, as the borrower, entered into a first amendment to the September 8, 2021, Credit Agreement ("First Amendment to the Credit Agreement"), with the Lender and the lenders thereto. The amendment to the Credit Agreement changed the definition of the term 'Payment Conditions' and further defines "default" or "event of default" and the calculation of the Fixed Charge Coverage Ratio.

As of December 31, 2022, there was \$19.2 million outstanding under the Credit Agreement, exclusive of fees and letters of credit.

Letters of credit outstanding at the Lender as of December 31, 2022, totaled \$1.1 million.

Contractual Obligations

As of December 31, 2022, 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, 2022.

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, the 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, 2022, and 2021, the Company did not have sales, but had 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 regarding financial instruments is changes in interest rates. On December 31, 2022, the Company had \$19.2 million outstanding on its line of credit, exclusive of fees and letters of credit.

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, 2022.

(b) *Changes in internal control over financial reporting.* During the quarter ended December 31, 2022, 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 "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 concerning long-term goals or anticipated results of the Company, including statements contained in the Company's filings with the Securities and Exchange Commission and 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. Certain important factors 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, 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, 2022.

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

On January 20, 2022, the Board of Directors approved a share repurchase program authorizing the Company to purchase up to \$30 million of the Company’s common stock through January 19, 2025. All purchases were made in the open market, except as noted below.

The following table summarizes the activity of the common stock repurchases made during the three months ended December 31, 2022.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Plan	Approximate Dollar Value of Shares that May Yet Be Purchased
October 1, 2022, to October 31, 2022	43,914	\$ 14.96	1,235,119	\$ 6,478,061
November 1, 2022, to November 30, 2022	33,015	15.29	1,268,134	5,971,515
December 1, 2022, to December 31, 2022	48,288	15.20	1,314,889	5,256,990
Three months ended December 31, 2022 (1) (2)	125,217	\$ 15.14	1,314,889	\$ 5,256,990

(1) Includes 3,268 shares purchased with cash in September 2022, with trade settlements in October 2022.

(2) Includes 1,533 shares surrendered for payment of withholding taxes in connection with the vesting of restricted stock.

Item 6. Exhibits

Exhibit No.	
10.1	Flexsteel Industries, Inc. 2022 Equity Incentive Plan (Incorporated by reference to Form 8-K filed with the Commission on December 16, 2022).
10.2	2022 Equity Incentive Plan – Stock Option Agreement*
10.3	2022 Equity Incentive Plan – Performance Share Unit Agreement*
10.4	2022 Equity Incentive Plan – Restricted Stock Unit Agreement*
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.*
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101.INS	XBRL Instance Document**
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
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: February 8, 2023

By: /s/ G. Alejandro Huerta
G. Alejandro Huerta
Chief Financial Officer
(Principal Financial & Accounting Officer)

FLEXSTEEL INDUSTRIES, INC.

2022 EQUITY INCENTIVE PLAN

STOCK OPTION AGREEMENT

Unless otherwise defined herein, the terms defined in the Flexsteel Industries, Inc. 2022 Equity Incentive Plan (the "Plan") will have the same defined meanings in this Stock Option Agreement (the "Agreement"), including the Notice of Stock Option Grant (the "Notice of Grant") and Terms and Conditions of Stock Option Grant, attached hereto as Exhibit A.

NOTICE OF STOCK OPTION GRANT

Participant: _____

Participant has been granted an Option to purchase Common Stock of Flexsteel Industries, Inc. (the "Company"), subject to the terms and conditions of the Plan and this Agreement, as follows:

Date of Grant _____

Vesting Commencement Date _____

Number of Shares Granted _____

Exercise Price per Share \$ _____

Total Exercise Price \$ _____

Type of Option _____ Incentive Stock Option _____ Nonstatutory Stock Option

Term/Expiration Date _____

Vesting Schedule:

Subject to accelerated vesting as set forth below or in the Plan, this Option will be exercisable, in whole or in part, in accordance with the following schedule:

[Insert vesting schedule, e.g.,: Twenty-five percent (25%) of the Shares subject to the Option shall vest on the one (1) year anniversary of the Vesting Commencement Date, and one forty-eighth (1/48th) of the Shares subject to the Option shall vest each month thereafter on the same day of the month as the Vesting Commencement Date (and if there is no corresponding day, on the last day of the month), subject to Participant continuing to be a Service Provider through each such date.]

Forfeiture and Repayment:

If you receive or become entitled to receive a payment under this Award Agreement within six months before you cease to be a Service Provider, the Company, in its sole discretion, may require you to forfeit or return the Award, as the case may be, in the event you: (a) engage in Competitive Activity (as defined below) at any time during your employment or within a two-year period after you cease to be a Service Provider or (b) engage in Improper Use of Confidential Information (as defined below) at any time. The Company also reserves the right to require you to pay back to the Company any amount received under the Award as described in the Company's Incentive Compensation Clawback Policy, as then in effect (the "Clawback Policy"). Further, in no event will you be entitled to an Award under this Award Agreement if you were terminated as a Service Provider for Cause (as defined below) at any time before the payment date of the Award. Any repayment due under this paragraph will be

made by you either in the Shares, or in a dollar amount equal to the Fair Market Value of the Shares determined on the date of repayment, you received under the Award. The Administrator, in its discretion, will determine which method of payment is acceptable. The terms of any repayment required under the Clawback Policy will be made in accordance with the Clawback Policy.

“Cause” means, as determined within the sole discretion of the Plan Administrator:

(i) The willful and continued failure of the Participant to perform substantially the Participant’s duties as established from time to time by the Company’s management (other than any such failure resulting from a disability), after a written demand for substantial performance is delivered to the Participant by the Company’s management that specifically identifies the manner in which the management believes that the Participant has not substantially performed the Participant’s duties; or

(ii) Dishonesty, fraud, misappropriation of funds, theft relating to the Participant’s position, harassment, an act of violence, acts punishable by law, misconduct as described in the Company’s Employee Handbook, as amended from time to time, or such other serious misconduct as will be determined by the Administrator to constitute conduct that warrants forfeiture pursuant to the Plan.

“Competitive Activity” means any of the following regardless of whether it is undertaken, directly or indirectly, on your own behalf or on behalf of any person or entity other than the Company, including without limitation as a proprietor, principal, agent, partner, officer, director, stockholder, employee, member of any association, contractor, consultant or otherwise:

(i) Engaging in any business activity, in any geographic market in which the Company is then engaged in business that is competitive with the business of the Company; or

(ii) Hiring or soliciting for employment any person who is then an employee of the Company; or

(iii) Inducing or attempting to induce any person to end his or her employment relationship with the Company; or

(iv) Soliciting business concerning any business (as described in Section (i) above) from any person or entity who is, or who was, a client, customer, prospective client or prospective customer of the Company; or

(v) Taking any action to divert business from, or inducing or attempting to induce any customer or prospective customer or any vendor, supplier or other business relation to cease doing business with the Company.

“Improper Use of Confidential Information” means:

(i) Any use or disclosure of Confidential Information except as required for the performance of your duties as an employee of the Company;

(ii) Any act or omission that directly or indirectly would materially reduce the value of Confidential Information except for such acts or omissions that are required for the performance of your duties as an employee of the Company.

(iii) Notwithstanding anything in Sections (i) or (ii) above, Improper Use of Confidential Information does not include:

(A) any disclosure, use or other act or omission that is expressly authorized in writing, in advance by the Company; or

(B) any required disclosure of Confidential Information by law or legal process, if: (x) you provide prompt notice to the Company in writing, and prior to disclosing any Confidential Information, so

that the Company may elect to seek an appropriate protective order to prevent disclosure at the Company's option and expense; and (y) you cooperate with the Company in any efforts to seek a protective order.

For purposes of this definition, "Confidential Information" means any non-public information regarding the Company or any of its owners, directors, representatives, agents, employees, suppliers, vendors, shareholders, members, clients, customers, or other third parties or entities with whom the Company does business and which you have learned or developed in the past as a result of your employment by or association with the Company or which you learn or develop while providing services to the Company. Confidential Information includes, but is not limited to, trade secrets, information about customers, prospective customers, marketing strategies, business strategies, sales strategies, products, services, key personnel, suppliers, pricing, technology, computer software code, methods, processes, designs, research, development systems, techniques, finances, accounting, purchasing, forecasts, or planning. All information disclosed to you or to which you obtain access in whatever form, whether originated by you or by others, during the period that you provide services to the Company will be presumed to be Confidential Information if it is treated by the Company as being Confidential Information or if you have a reasonable basis to believe it to be Confidential Information. For these purposes, Confidential Information will not include knowledge or information: (i) that is now or subsequently becomes generally publicly known, other than as a direct or indirect result of Improper Use or Disclosure of Confidential Information by you; or (ii) that is independently made available to you in good faith by a third party who has not violated any legal duty or confidential relationship with the Company.

Termination Period:

This Option will be exercisable for three (3) months after Participant ceases to be a Service Provider, unless such termination is due to Participant's death or Disability, in which case this Option will be exercisable for twelve (12) months after Participant ceases to be a Service Provider. Notwithstanding the foregoing sentence, in no event may this Option be exercised after the Term/Expiration Date as provided above and may be subject to earlier termination as provided in Section 15(c) of the Plan.

By Participant's signature and the signature of the Company's representative below, Participant and the Company agree that this Option is granted under and governed by the terms and conditions of the Plan and this Agreement, including exhibits hereto, all of which are made a part of this document. Participant has reviewed the Plan and this Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Agreement and fully understands all provisions of the Plan and Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Agreement. Participant further agrees to notify the Company upon any change in the residence address indicated below.

PARTICIPANT

FLEXSTEEL INDUSTRIES, INC.

Signature

By

Print Name

Title

Address:

EXHIBIT A

TERMS AND CONDITIONS OF STOCK OPTION GRANT

1. Grant of Option. The Company hereby grants to the Participant named in the Notice of Grant (the "Participant") an option (the "Option") to purchase the number of Shares, as set forth in the Notice of Grant, at the exercise price per Share set forth in the Notice of Grant (the "Exercise Price"), subject to all of the terms and conditions in this Agreement and the Plan, which is incorporated herein by reference. Subject to Section 18(c) of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Agreement, the terms and conditions of the Plan will prevail.

If designated in the Notice of Grant as an Incentive Stock Option ("ISO"), this Option is intended to qualify as an ISO under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). However, if this Option is intended to be an Incentive Stock Option, to the extent required by the \$100,000 rule of Code Section 422(d), this Option will be treated as a Nonstatutory Stock Option ("NSO"). Further, if for any reason this Option (or portion thereof) will not qualify as an ISO, then, to the extent of such nonqualification, such Option (or portion thereof) shall be regarded as a NSO granted under the Plan. In no event will the Administrator, the Company or any Parent or Subsidiary or any of their respective employees or directors have any liability or obligation to Participant to reimburse, indemnify, or hold harmless (or any other person) due to the failure of the Option to qualify for any reason as an ISO.

2. Vesting Schedule. Except as provided in Section 3, the Option awarded by this Agreement will vest in accordance with the vesting provisions set forth in the Notice of Grant. Shares scheduled to vest on a certain date or upon the occurrence of a certain condition will not vest in Participant in accordance with any of the provisions of this Agreement, unless Participant will have been continuously a Service Provider from the Date of Grant until the date such vesting occurs.

3. Administrator Discretion. The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested Option at any time, subject to the terms of the Plan. If so accelerated, such Option will be considered as having vested as of the date specified by the Administrator.

4. Exercise of Option

(a) Right to Exercise. This Option may be exercised only within the term set out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Agreement.

(b) Method of Exercise. This Option is exercisable by delivery of an exercise notice, in the form attached as Exhibit B (the "Exercise Notice") or in a manner and pursuant to such procedures as the Administrator may determine, which will state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised (the "Exercised Shares"), and such other representations and agreements as may be required by the Company pursuant to the provisions of the Plan. The Exercise Notice will be completed by Participant and delivered to the Company. The Exercise Notice will be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares together with any applicable tax withholding. This Option will be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by the aggregate Exercise Price.

5. Method of Payment. Payment of the aggregate Exercise Price will be by any of the following, or a combination thereof, at the election of Participant:

- (a) cash;
- (b) check;

(c) consideration received by the Company under a formal cashless exercise program adopted by the Company in connection with the Plan; or

(d) surrender of other Shares which have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the Exercised Shares, provided that accepting such Shares, in the sole discretion of the Administrator, will not result in any adverse accounting consequences to the Company.

6. Tax Obligations.

(a) Withholding of Taxes. Participant acknowledges that, regardless of any action taken by the Company, the ultimate liability for any tax and/or social insurance liability obligations and requirements in connection with the Option, including, without limitation, (i) all federal, state, and local taxes (including Participant's Federal Insurance Contributions Act (FICA) obligations) that are required to be withheld by the Company or other payment of tax-related items related to Participant's participation in the Plan and legally applicable to Participant; (ii) Participant's and, to the extent required by the Company, the Company's fringe benefit tax liability, if any, associated with the grant, vesting, or exercise of the Option or sale of Shares; and (iii) any other Company taxes the responsibility for which Participant has, or has agreed to bear, with respect to the Option (or exercise thereof or issuance of Shares thereunder) (collectively, the "Tax Obligations"), is and remains Participant's sole responsibility and may exceed the amount actually withheld by the Company. Participant further acknowledges that the Company does not (A) make any representations or undertakings regarding the treatment of any Tax Obligations in connection with any aspect of the Option, including, but not limited to, the grant, vesting or exercise of the Option, the subsequent sale of Shares acquired pursuant to such exercise and the receipt of any dividends or other distributions, and (B) make any commitment to and is under any obligation to structure the terms of the grant or any aspect of the Option to reduce or eliminate Participant's liability for Tax Obligations or achieve any particular tax result. Further, if Participant is subject to Tax Obligations in more than one jurisdiction between the Date of Grant and the date of any relevant taxable or tax withholding event, as applicable, Participant acknowledges that the Company (or former employer, as applicable) may be required to withhold or account for Tax Obligations in more than one jurisdiction.

Pursuant to such procedures as the Administrator may specify from time to time, the Company may withhold the amount required to be withheld for the payment of Tax Obligations (the "Withholding Obligations"). The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit Participant to satisfy such Withholding Obligations, in whole or in part (without limitation), if permissible by applicable local law, by: (i) paying cash in U.S. dollars, (ii) having the Company withhold otherwise deliverable Shares having a fair market value equal to the minimum amount that is necessary to meet the withholding requirement for such Withholding Obligations (or such greater amount as Participant may elect if permitted by the Administrator, if such greater amount would not result in adverse financial accounting consequences) ("Net Share Withholding"), (iii) withholding the amount of such Withholding Obligations from Participant's wages or other cash compensation paid to Participant by the Company, (iv) delivering to the Company Shares that Participant owns and that already have vested with a fair market value equal to the Withholding Obligations (or such greater amount as Participant may elect if permitted by the Administrator, if such greater amount would not result in adverse financial accounting consequences), (v) selling a sufficient number of such Shares otherwise deliverable to Participant, through such means as the Company may determine in its sole discretion (whether through a broker or otherwise) equal to the minimum amount that is necessary to meet the withholding requirement for such Withholding Obligations (or such greater amount as Participant may elect if permitted by the Administrator, if such greater amount would not result in adverse financial accounting consequences) ("Sell to Cover"), (vi) such other means as the Administrator deems appropriate, or (vii) any combination of the foregoing methods of payment. If the Withholding Obligations are satisfied by withholding in Shares, for tax purposes, Participant is deemed to have been issued the full number of Shares exercised under the Option, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Withholding Obligations. To the extent determined appropriate by the Company in its discretion, it will have the right (but not the obligation) to satisfy any Withholding Obligations by Net Share Withholding. If Net Share Withholding is the method by which such Withholding Obligations are satisfied, the Company will not withhold on a fractional Share basis to satisfy any portion of the Withholding Obligations and, unless the Company determines otherwise, no refund will be made to Participant for the value of the portion of a Share, if any, withheld in excess of the Withholding Obligations. If a Sell to Cover is the method by which Withholding Obligations are satisfied, Participant agrees that as part of the Sell to Cover, additional Shares

may be sold to satisfy any associated broker or other fees. Only whole Shares will be sold pursuant to a Sell to Cover. Any proceeds from the sale of Shares pursuant to a Sell to Cover that are in excess of the Withholding Obligations and any associated broker or other fees will be paid to Participant in accordance with procedures the Company may specify from time to time.

Participant is advised to review with his or her own tax advisers the U.S. federal, state, local and non-U.S. tax consequences of the transactions contemplated by this Agreement. With respect to such matters, Participant relies solely on such advisers and not on any statements or representations of the Company or any of its agents, written or oral. Participant understands that Participant (and not the Company) shall be responsible for Participant's own tax liability that may arise as a result of the transactions contemplated by this Agreement.

For clarification purposes, in no event will the Company issue Participant any Shares unless and until arrangements satisfactory to the Administrator have been made for the payment of Participant's Withholding Obligations. If Participant fails to make satisfactory arrangements for the payment of such Withholding Obligations hereunder at the time of the attempted Option exercise, Participant acknowledges and agrees that the Company may refuse to honor the exercise and refuse to issue or deliver the Shares.

(b) Notice of Disqualifying Disposition of ISO Shares. If the Option granted to Participant herein is an ISO, and if Participant sells or otherwise disposes of any of the Shares acquired pursuant to the ISO on or before the later of (i) the date two (2) years after the Date of Grant, or (ii) the date one (1) year after the date of exercise, Participant will immediately notify the Company in writing of such disposition. Participant agrees that Participant may be subject to income tax withholding by the Company on the compensation income recognized by Participant.

(c) Code Section 409A. Under Section 409A, a stock right (such as the Option) that was granted with a per share exercise price that is determined by the Internal Revenue Service (the "IRS") to be less than the fair market value of an underlying share on the date of grant (a "discount option") may be considered "deferred compensation." A stock right that is a "discount option" may result in (i) income recognition by the recipient of the stock right prior to the exercise of the stock right, (ii) an additional twenty percent (20%) federal income tax, and (iii) potential penalty and interest charges. The "discount option" may also result in additional state income, penalty and interest tax to the recipient of the stock right. Participant acknowledges that the Company cannot and has not guaranteed that the IRS will agree that the per Share exercise price of this Option equals or exceeds the fair market value of a Share on the date of grant in a later examination. Participant agrees that if the IRS determines that the Option was granted with a per Share exercise price that was less than the fair market value of a Share on the date of grant, Participant shall be solely responsible for Participant's costs related to such a determination. In no event will the Company or any of its Parent or Subsidiaries have any responsibility, liability, or obligation to reimburse, indemnify, or hold harmless Participant (or any other person) in respect of this Option or any other Awards, for any taxes, penalties or interest that may be imposed on, or other costs incurred by, Participant (or any other person) as a result of Section 409A.

7. Rights as Stockholder. Neither Participant nor any person claiming under or through Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to Participant. After such issuance, recordation and delivery, Participant will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

8. No Guarantee of Continued Service. PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS OPTION OR ACQUIRING SHARES HEREUNDER. PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND WILL NOT INTERFERE

IN ANY WAY WITH PARTICIPANT'S RIGHT OR THE RIGHT OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) TO TERMINATE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

9. Address for Notices. Any notice to be given to the Company under the terms of this Agreement will be addressed to the Company at Flexsteel Industries, Inc., 385 Bell Street, Dubuque, Iowa 52001-0877, or at such other address as the Company may hereafter designate in writing.

10. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Participant only by Participant.

11. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

12. Additional Conditions to Issuance of Stock. If at any time the Company will determine, in its discretion, that the listing, registration, qualification or rule compliance of the Shares upon any securities exchange or under any state, federal or foreign law, the tax code and related regulations or the consent or approval of any governmental regulatory authority is necessary or desirable as a condition to the purchase by, or issuance of Shares to, Participant (or his or her estate) hereunder, such purchase or issuance will not occur unless and until such listing, registration, qualification, rule compliance, consent or approval will have been completed, effected or obtained free of any conditions not acceptable to the Company. The Company will make all reasonable efforts to meet the requirements of any such state, federal or foreign law or securities exchange and to obtain any such consent or approval of any such governmental authority or securities exchange. Assuming such compliance, for income tax purposes the Exercised Shares will be considered transferred to Participant on the date the Option is exercised with respect to such Exercised Shares.

13. Plan Governs. This Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement and one or more provisions of the Plan, the provisions of the Plan will govern. Capitalized terms used and not defined in this Agreement will have the meaning set forth in the Plan.

14. Administrator Authority. The Administrator will have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Shares subject to the Option have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon Participant, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

15. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to Options awarded under the Plan or future options that may be awarded under the Plan by electronic means or request or require Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

16. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

17. Agreement Severable. In the event that any provision in this Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Agreement.

18. Modifications to the Agreement. This Agreement constitutes the entire understanding of the parties on the subjects covered. Participant expressly warrants that he or she is not accepting this Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Agreement can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Agreement, the Company reserves the right to revise this Agreement as it deems necessary or advisable, in its sole discretion and without the consent of Participant, to comply with Code Section 409A or to otherwise avoid imposition of any additional tax or income recognition under Section 409A of the Code in connection to this Option.

19. Amendment, Suspension or Termination of the Plan. By accepting this Award, Participant expressly warrants that he or she has received an Option under the Plan, and has received, read and understood a description of the Plan. Participant understands that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time.

20. Governing Law. This Award Agreement will be governed by the laws of Iowa without giving effect to the conflict of law principles thereof. For purposes of litigating any dispute that arises under this Award of an option or this Agreement, the parties hereby submit to and consent to the jurisdiction of the State of Iowa and agree that such litigation will be conducted in the courts of Dubuque County Iowa, or the federal courts for the United States for the District of Iowa, and no other courts, where this Award of an option is made and/or to be performed.

EXHIBIT B

**FLEXSTEEL INDUSTRIES, INC.
2022 EQUITY INCENTIVE PLAN
EXERCISE NOTICE**

Flexsteel Industries, Inc.
385 Bell Street
Dubuque, Iowa 52001-0877
Attention: Stock Administration

1. Exercise of Option. Effective as of today, _____, _____, the undersigned (“Purchaser”) hereby elects to purchase _____ shares (the “Shares”) of the Common Stock of Flexsteel Industries, Inc. (the “Company”) under and pursuant to the 2022 Equity Incentive Plan (the “Plan”) and the Stock Option Agreement dated _____, _____, (the “Agreement”). The purchase price for the Shares will be \$ _____, as required by the Agreement.
2. Delivery of Payment. Purchaser herewith delivers to the Company the full purchase price of the Shares and any required tax withholding to be paid in connection with the exercise of the Option.
3. Representations of Purchaser. Purchaser acknowledges that Purchaser has received, read and understood the Plan and the Agreement and agrees to abide by and be bound by their terms and conditions.
4. Rights as Stockholder. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the Shares, no right to vote or receive dividends or any other rights as a stockholder will exist with respect to the Shares subject to the Option, notwithstanding the exercise of the Option. The Shares so acquired will be issued to Purchaser as soon as practicable after exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date of issuance, except as provided in Section 15 of the Plan.
5. Tax Consultation. Purchaser understands that Purchaser may suffer adverse tax consequences as a result of Purchaser’s purchase or disposition of the Shares. Purchaser represents that Purchaser has consulted with any tax consultants Purchaser deems advisable in connection with the purchase or disposition of the Shares and that Purchaser is not relying on the Company for any tax advice.
6. Entire Agreement; Governing Law. The Plan and Agreement are incorporated herein by reference. This Exercise Notice, the Plan and the Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Purchaser with respect to the subject matter hereof, and may not be modified adversely to the Purchaser’s interest except by means of a writing signed by the Company and Purchaser. This agreement is governed by the internal substantive laws, but not the choice of law rules, of Iowa.

Ex. B-1

Submitted by:

Accepted by:

PARTICIPANT

FLEXSTEEL INDUSTRIES, INC.

Signature

By

Print Name

Title

Address:

Date Received

Ex. B-2

FLEXSTEEL INDUSTRIES, INC.

2022 EQUITY INCENTIVE PLAN

PERFORMANCE SHARE UNIT AGREEMENT

Unless otherwise defined herein, the terms defined in the Flexsteel Industries, Inc. 2022 Equity Incentive Plan (the "Plan") will have the same defined meanings in this Performance Share Unit Agreement (the "Award Agreement"), which includes the Notice of Performance Share Unit Grant (the "Notice of Grant") and Terms and Conditions of Performance Share Unit Grant, attached hereto as Exhibit A.

NOTICE OF PERFORMANCE SHARE UNIT GRANT

Participant Name: _____

Participant has been granted the right to receive an Award of performance share units ("PSUs"), subject to the terms and conditions of the Plan and this Award Agreement, as follows:

Date of Grant _____

Target Number of PSUs _____

Maximum Number of PSUs _____

Subject to any acceleration provisions contained in the Plan or set forth below, the PSUs will vest in accordance with the following schedule:

Vesting Schedule

The PSUs are eligible to vest only if certain performance goals, described in detail in Exhibit B, are satisfied. Vesting is subject to continued status as a Service Provider through the applicable vesting date.

Except as provided in Exhibit B, in the event Participant ceases to be a Service Provider for any or no reason before Participant vests in the PSUs, the PSUs and Participant's right to acquire any Shares hereunder will immediately terminate.

Forfeiture and Repayment:

If you receive or become entitled to receive a payment under this Award Agreement within six months before you cease to be a Service Provider, the Company, in its sole discretion, may require you to forfeit or return the Award, as the case may be, in the event you: (a) engage in Competitive Activity (as defined below) at any time during your employment or within a two-year period after you cease to be a Service Provider or (b) engage in Improper Use of Confidential Information (as defined below) at any time. The Company also reserves the right to require you to pay back to the Company any amount received under the Award as described in the Company's Incentive Compensation Clawback Policy, as then in effect (the "Clawback Policy"). Further, in no event will you be entitled to an Award under this Award Agreement if you were terminated as a Service Provider for Cause (as defined below) at any time before the payment date of the Award. Any repayment due under this paragraph will be made by you either in the Shares, or in a dollar amount equal to the Fair Market Value of the Shares determined on the date of repayment, you received under the Award. The Administrator, in its discretion, will determine which method of payment is acceptable. The terms of any repayment required under the Clawback Policy will be made in accordance with the Clawback Policy.

"Cause" means, as determined within the sole discretion of the Plan Administrator:

(i) The willful and continued failure of the Participant to perform substantially the Participant's duties as established from time to time by the Company's management (other than any such failure resulting from a disability), after a written demand for substantial performance is delivered to the Participant by the Company's management that specifically identifies the manner in which the management believes that the Participant has not substantially performed the Participant's duties; or

(ii) Dishonesty, fraud, misappropriation of funds, theft relating to the Participant's position, harassment, an act of violence, acts punishable by law, misconduct as described in the Company's Employee Handbook, as amended from time to time, or such other serious misconduct as will be determined by the Administrator to constitute conduct that warrants forfeiture pursuant to the Plan.

"Competitive Activity" means any of the following regardless of whether it is undertaken, directly or indirectly, on your own behalf or on behalf of any person or entity other than the Company, including without limitation as a proprietor, principal, agent, partner, officer, director, stockholder, employee, member of any association, contractor, consultant or otherwise:

(i) Engaging in any business activity, in any geographic market in which the Company is then engaged in business that is competitive with the business of the Company; or

(ii) Hiring or soliciting for employment any person who is then an employee of the Company; or

(iii) Inducing or attempting to induce any person to end his or her employment relationship with the Company; or

(iv) Soliciting business concerning any business (as described in Section (i) above) from any person or entity who is, or who was, a client, customer, prospective client or prospective customer of the Company; or

(v) Taking any action to divert business from, or inducing or attempting to induce any customer or prospective customer or any vendor, supplier or other business relation to cease doing business with the Company.

"Improper Use of Confidential Information" means:

(i) Any use or disclosure of Confidential Information except as required for the performance of your duties as an employee of the Company;

(ii) Any act or omission that directly or indirectly would materially reduce the value of Confidential Information except for such acts or omissions that are required for the performance of your duties as an employee of the Company.

(iii) Notwithstanding anything in Sections (i) or (ii) above, Improper Use of Confidential Information does not include:

(A) any disclosure, use or other act or omission that is expressly authorized in writing, in advance by the Company; or

(B) any required disclosure of Confidential Information by law or legal process, if: (x) you provide prompt notice to the Company in writing, and prior to disclosing any Confidential Information, so that the Company may elect to seek an appropriate protective order to prevent disclosure at the Company's option and expense; and (y) you cooperate with the Company in any efforts to seek a protective order.

For purposes of this definition, "Confidential Information" means any non-public information regarding the Company or any of its owners, directors, representatives, agents, employees, suppliers, vendors, shareholders, members, clients, customers, or other third parties or entities with whom the Company does business and which you have learned or developed in the past as a result of your employment by or association with the Company or which you learn or develop while providing services to the Company. Confidential Information includes, but is not limited

to, trade secrets, information about customers, prospective customers, marketing strategies, business strategies, sales strategies, products, services, key personnel, suppliers, pricing, technology, computer software code, methods, processes, designs, research, development systems, techniques, finances, accounting, purchasing, forecasts, or planning. All information disclosed to you or to which you obtain access in whatever form, whether originated by you or by others, during the period that you provide services to the Company will be presumed to be Confidential Information if it is treated by the Company as being Confidential Information or if you have a reasonable basis to believe it to be Confidential Information. For these purposes, Confidential Information will not include knowledge or information: (i) that is now or subsequently becomes generally publicly known, other than as a direct or indirect result of Improper Use or Disclosure of Confidential Information by you; or (ii) that is independently made available to you in good faith by a third party who has not violated any legal duty or confidential relationship with the Company.

By Participant's signature and the signature of the representative of Flexsteel Industries, Inc. (the "Company") below, Participant and the Company agree that this Award of PSUs is granted under and governed by the terms and conditions of the Plan and this Award Agreement, including the Terms and Conditions of Performance Share Unit Grant, attached hereto as Exhibit A, all of which are made a part of this document. Participant has reviewed the Plan and this Award Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Award Agreement and fully understands all provisions of the Plan and Award Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Award Agreement. Participant further agrees to notify the Company upon any change in the residence address indicated below.

PARTICIPANT

FLEXSTEEL INDUSTRIES, INC.

Signature

By

Print Name

Title

Address:

EXHIBIT A

TERMS AND CONDITIONS OF PERFORMANCE SHARE UNIT GRANT

1. Grant. The Company hereby grants to the individual named in the Notice of Grant (the “Participant”) under the Plan an Award of PSUs, subject to all of the terms and conditions in this Award Agreement and the Plan, which is incorporated herein by reference. Subject to Section 18(c) of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Award Agreement, the terms and conditions of the Plan will prevail.

2. Company’s Obligation to Pay. Each PSU represents the right to receive a Share on the date it vests. Unless and until the PSUs will have vested in the manner set forth in Sections 3 or 4, Participant will have no right to payment of any such PSUs. Prior to actual payment of any vested PSUs, such PSUs will represent an unsecured obligation of the Company, payable (if at all) only from the general assets of the Company. Any PSUs that vest in accordance with Sections 3 or 4 will be paid to Participant (or in the event of Participant’s death, to his or her estate) in whole Shares, subject to Participant satisfying any applicable tax withholding obligations as set forth in Section 7. Subject to the provisions of Section 4, such vested PSUs shall be paid in whole Shares as soon as practicable after vesting, but in each such case within the period sixty (60) days following the vesting date. In no event will Participant be permitted, directly or indirectly, to specify the taxable year of the payment of any PSUs payable under this Award Agreement.

3. Vesting Schedule. Except as provided in Section 4, and subject to Section 5, the PSUs awarded by this Award Agreement will vest in accordance with the vesting provisions set forth in the Notice of Grant and Exhibit B. PSUs scheduled to vest on a certain date or upon the occurrence of a certain condition will not vest in Participant in accordance with any of the provisions of this Award Agreement, unless Participant will have been continuously a Service Provider from the Date of Grant until the date such vesting occurs.

4. Administrator Discretion. The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested PSUs at any time, subject to the terms of the Plan. If so accelerated, such PSUs will be considered as having vested as of the date specified by the Administrator. The payment of Shares vesting pursuant to this Section 4 shall in all cases be paid at a time or in a manner that is exempt from, or complies with, Section 409A.

Notwithstanding anything in the Plan or this Award Agreement to the contrary, if the vesting of the balance, or some lesser portion of the balance, of the PSUs is accelerated in connection with Participant’s termination as a Service Provider (provided that such termination is a “separation from service” within the meaning of Section 409A, as determined by the Company), other than due to death, and if (x) Participant is a “specified employee” within the meaning of Section 409A at the time of such termination as a Service Provider and (y) the payment of such accelerated PSUs will result in the imposition of additional tax under Section 409A if paid to Participant on or within the six (6) month period following Participant’s termination as a Service Provider, then the payment of such accelerated PSUs will not be made until the date six (6) months and one (1) day following the date of Participant’s termination as a Service Provider, unless the Participant dies following his or her termination as a Service Provider, in which case, the PSUs will be paid in Shares to the Participant’s estate as soon as practicable following his or her death. It is the intent of this Award Agreement that it and all payments and benefits hereunder be exempt from, or comply with, the requirements of Section 409A so that none of the PSUs provided under this Award Agreement or Shares issuable thereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to be so exempt or so comply. Each payment payable under this Award Agreement is intended to constitute a separate payment for purposes of Treasury Regulation Section 1.409A-2(b)(2). For purposes of this Award Agreement, “Section 409A” means Section 409A of the Code, and any final Treasury Regulations and Internal Revenue Service guidance thereunder, as each may be amended from time to time.

5. Forfeiture upon Termination of Status as a Service Provider. Notwithstanding any contrary provision of this Award Agreement, except to the extent provided in Exhibit B, the balance of the PSUs that have not vested as of the time of Participant’s termination as a Service Provider for any or no reason and Participant’s right to acquire any Shares hereunder will immediately terminate.

Ex: A-1

6. Death of Participant. Any distribution or delivery to be made to Participant under this Award Agreement will, if Participant is then deceased, be made to Participant's designated beneficiary, or if no beneficiary survives Participant, the administrator or executor of Participant's estate. Any such transferee must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.

7. Withholding of Taxes. Participant acknowledges that, regardless of any action taken by the Company, the ultimate liability for any tax and/or social insurance liability obligations and requirements in connection with the PSUs, including, without limitation, (i) all federal, state, and local taxes (including Participant's Federal Insurance Contributions Act (FICA) obligations) that are required to be withheld by the Company or other payment of tax-related items related to Participant's participation in the Plan and legally applicable to Participant; (ii) Participant's and, to the extent required by the Company, the Company's fringe benefit tax liability, if any, associated with the grant, vesting, or settlement of the PSUs or sale of Shares; and (iii) any other Company taxes the responsibility for which Participant has, or has agreed to bear, with respect to the PSUs (or settlement thereof or issuance of Shares thereunder) (collectively, the "Tax Obligations"), is and remains Participant's sole responsibility and may exceed the amount actually withheld by the applicable Company. Participant further acknowledges that the Company does not (A) make any representations or undertakings regarding the treatment of any Tax Obligations in connection with any aspect of the PSUs, including, but not limited to, the grant, vesting or settlement of the PSUs, the subsequent sale of Shares acquired pursuant to such settlement and the receipt of any dividends or other distributions, and (B) make any commitment to and is under any obligation to structure the terms of the grant or any aspect of the PSUs to reduce or eliminate Participant's liability for Tax Obligations or achieve any particular tax result. Further, if Participant is subject to Tax Obligations in more than one jurisdiction between the Date of Grant and the date of any relevant taxable or tax withholding event, as applicable, Participant acknowledges that the Company may be required to withhold or account for Tax Obligations in more than one jurisdiction.

Pursuant to such procedures as the Administrator may specify from time to time, the Company may withhold the amount required to be withheld for the payment of Tax Obligations (the "Withholding Obligations"). The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit Participant to satisfy such Withholding Obligations, in whole or in part (without limitation), if permissible by applicable local law, by: (i) paying cash in U.S. dollars, (ii) having the Company withhold otherwise deliverable Shares having a fair market value equal to the minimum amount that is necessary to meet the withholding requirement for such Withholding Obligations (or such greater amount as Participant may elect if permitted by the Administrator, if such greater amount would not result in adverse financial accounting consequences) ("Net Share Withholding"), (iii) withholding the amount of such Withholding Obligations from Participant's wages or other cash compensation paid to Participant by the Company, (iv) delivering to the Company Shares that Participant owns and that already have vested with a fair market value equal to the Withholding Obligations (or such greater amount as Participant may elect if permitted by the Administrator, if such greater amount would not result in adverse financial accounting consequences), (v) selling a sufficient number of such Shares otherwise deliverable to Participant, through such means as the Company may determine in its sole discretion (whether through a broker or otherwise) equal to the minimum amount that is necessary to meet the withholding requirement for such Withholding Obligations (or such greater amount as Participant may elect if permitted by the Administrator, if such greater amount would not result in adverse financial accounting consequences) ("Sell to Cover"), (vi) such other means as the Administrator deems appropriate, or (vii) any combination of the foregoing methods of payment. If the Withholding Obligations are satisfied by withholding in Shares, for tax purposes, Participant is deemed to have been issued the full number of Shares subject to the vested PSUs, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Withholding Obligations. To the extent determined appropriate by the Company in its discretion, it will have the right (but not the obligation) to satisfy any Withholding Obligations by Net Share Withholding. If Net Share Withholding is the method by which such Withholding Obligations are satisfied, the Company will not withhold on a fractional Share basis to satisfy any portion of the Withholding Obligations and, unless the Company determines otherwise, no refund will be made to Participant for the value of the portion of a Share, if any, withheld in excess of the Withholding Obligations. If a Sell to Cover is the method by which Withholding Obligations are satisfied, Participant agrees that as part of the Sell to Cover, additional Shares may be sold to satisfy any associated broker or other fees. Only whole Shares will be sold pursuant to a Sell to Cover. Any proceeds from the sale of Shares pursuant to a Sell to Cover that are in excess of the Withholding Obligations and any associated broker or other fees will be paid to Participant in accordance with procedures the Company may specify from time to time.

Participant is advised to review with his or her own tax advisers the U.S. federal, state, local and non-U.S. tax consequences of the transactions contemplated by this Award Agreement. With respect to such matters, Participant relies solely on such advisers and not on any statements or representations of the Company or any of its agents, written or oral. Participant understands that Participant (and not the Company) shall be responsible for Participant's own tax liability that may arise as a result of the transactions contemplated by this Award Agreement.

For clarification purposes, in no event will the Company issue Participant any Shares unless and until arrangements satisfactory to the Administrator have been made for the payment of Participant's Withholding Obligations. If Participant fails to make satisfactory arrangements for the payment of such Withholding Obligations hereunder at the time any applicable PSUs otherwise are scheduled to vest pursuant to this Award Agreement or Participant's Withholding Obligations otherwise become due, Participant permanently will forfeit such PSUs to which Participant's Withholding Obligation relates and any right to receive Shares thereunder and such PSUs will be returned to the Company at no cost to the Company. Participant acknowledges and agrees that the Company may permanently refuse to issue or deliver the Shares if such Withholding Obligations are not delivered at the time they are due.

8. Rights as Stockholder. Neither Participant nor any person claiming under or through Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to Participant. After such issuance, recordation and delivery, Participant will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

9. No Guarantee of Continued Service. PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF THE PERFORMANCE-BASED RESTRICTED STOCK UNITS PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS AWARD OF PERFORMANCE-BASED RESTRICTED STOCK UNITS OR ACQUIRING SHARES HEREUNDER. PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AWARD AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND WILL NOT INTERFERE IN ANY WAY WITH PARTICIPANT'S RIGHT OR THE RIGHT OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) TO TERMINATE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

10. Address for Notices. Any notice to be given to the Company under the terms of this Award Agreement will be addressed to the Company at Flexsteel Industries, Inc., 385 Bell Street, Dubuque, Iowa 52001-0877 or at such other address as the Company may hereafter designate in writing.

11. Grant is Not Transferable. Except to the limited extent provided in Section 6, this grant and the rights and privileges conferred hereby will not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this grant, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

12. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Award Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

13. Additional Conditions to Issuance of Stock. If at any time the Company will determine, in its discretion, that the listing, registration, qualification or rule compliance of the Shares upon any securities exchange or under any state, federal or foreign law, the tax code and related regulations or the consent or approval of any

governmental regulatory authority is necessary or desirable as a condition to the issuance of Shares to Participant (or his or her estate) hereunder, such issuance will not occur unless and until such listing, registration, qualification, rule compliance, consent or approval will have been completed, effected or obtained free of any conditions not acceptable to the Company. Where the Company determines that the delivery of the payment of any Shares will violate federal securities laws or other applicable laws, the Company will defer delivery until the earliest date at which the Company reasonably anticipates that the delivery of Shares will no longer cause such violation. The Company will make all reasonable efforts to meet the requirements of any such state, federal or foreign law or securities exchange and to obtain any such consent or approval of any such governmental authority or securities exchange.

14. Plan Governs. This Award Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Award Agreement and one or more provisions of the Plan, the provisions of the Plan will govern. Capitalized terms used and not defined in this Award Agreement will have the meaning set forth in the Plan.

15. Administrator Authority. The Administrator will have the power to interpret the Plan and this Award Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any PSUs have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon Participant, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Award Agreement.

16. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to PSUs awarded under the Plan or future PSUs or Restricted Stock Units that may be awarded under the Plan by electronic means or

request or require Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

17. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Award Agreement.

18. Agreement Severable. In the event that any provision in this Award Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Award Agreement.

19. Modifications to the Award Agreement. This Award Agreement constitutes the entire understanding of the parties on the subjects covered. Participant expressly warrants that he or she is not accepting this Award Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Award Agreement can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Award Agreement, the Company reserves the right to revise this Award Agreement as it deems necessary or advisable, in its sole discretion and without the consent of Participant, to comply with Section 409A or to otherwise avoid imposition of any additional tax or income recognition under Section 409A in connection to this Award of PSUs.

20. Amendment, Suspension or Termination of the Plan. By accepting this Award, Participant expressly warrants that he or she has received an Award of PSUs under the Plan, and has received, read and understood a description of the Plan. Participant understands that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time.

21. Governing Law. This Award Agreement will be governed by the laws of Iowa without giving effect to the conflict of law principles thereof. For purposes of litigating any dispute that arises under this Award of PSUs or this Award Agreement, the parties hereby submit to and consent to the jurisdiction of the State of Iowa and

agree that such litigation will be conducted in the courts of Dubuque County, Iowa, or the federal courts for the United States for the District of Iowa, and no other courts, where this Award of PSUs is made and/or to be performed.

Ex: A-5

EXHIBIT B

VESTING SCHEDULE

[Applicable Vesting Schedule Inserted Here]

Ex: B-1

FLEXSTEEL INDUSTRIES, INC.

2022 EQUITY INCENTIVE PLAN

RESTRICTED STOCK UNIT AGREEMENT

Unless otherwise defined herein, the terms defined in the Flexsteel Industries, Inc. 2022 Equity Incentive Plan (the "Plan") will have the same defined meanings in this Restricted Stock Unit Agreement (the "Award Agreement"), which includes the Notice of Restricted Stock Unit Grant (the "Notice of Grant") and Terms and Conditions of Restricted Stock Unit Grant, attached hereto as Exhibit A.

NOTICE OF RESTRICTED STOCK UNIT GRANT

Participant Name: _____

Participant has been granted the right to receive an Award of Restricted Stock Units, subject to the terms and conditions of the Plan and this Award Agreement, as follows:

Date of Grant _____

Vesting Commencement Date _____

Number of Restricted Stock Units _____

Vesting Schedule:

Subject to any acceleration provisions contained in the Plan or set forth below, the Restricted Stock Units will vest in accordance with the following schedule:

[**Insert vesting schedule, e.g.,:** One-third (1/3rd) of the Restricted Stock Units will vest on the one (1) year anniversary of the Vesting Commencement Date, and one-third (1/3rd) of the Restricted Stock Units will vest each year thereafter on the same day as the Vesting Commencement Date, subject to Participant continuing to be a Service Provider through each such date.]

Forfeiture and Repayment:

If you receive or become entitled to receive a payment under this Award Agreement within six months before you cease to be a Service Provider, the Company, in its sole discretion, may require you to forfeit or return the Award, as the case may be, in the event you: (a) engage in Competitive Activity (as defined below) at any time during your employment or within a two-year period after you cease to be a Service Provider or (b) engage in Improper Use of Confidential Information (as defined below) at any time. The Company also reserves the right to require you to pay back to the Company any amount received under the Award as described in the Company's Incentive Compensation Clawback Policy, as then in effect (the "Clawback Policy"). Further, in no event will you be entitled to an Award under this Award Agreement if you were terminated as a Service Provider for Cause (as defined below) at any time before the payment date of the Award. Any repayment due under this paragraph will be made by you either in the Shares, or in a dollar amount equal to the Fair Market Value of the Shares determined on the date of repayment, you received under the Award. The Administrator, in its discretion, will determine which method of payment is acceptable. The terms of any repayment required under the Clawback Policy will be made in accordance with the Clawback Policy.

"Cause" means, as determined within the sole discretion of the Plan Administrator:

(i) The willful and continued failure of the Participant to perform substantially the Participant's duties as established from time to time by the Company's management (other than any such failure resulting from a

disability), after a written demand for substantial performance is delivered to the Participant by the Company's management that specifically identifies the manner in which the management believes that the Participant has not substantially performed the Participant's duties; or

(ii) Dishonesty, fraud, misappropriation of funds, theft relating to the Participant's position, harassment, an act of violence, acts punishable by law, misconduct as described in the Company's Employee Handbook, as amended from time to time, or such other serious misconduct as will be determined by the Administrator to constitute conduct that warrants forfeiture pursuant to the Plan.

"Competitive Activity" means any of the following regardless of whether it is undertaken, directly or indirectly, on your own behalf or on behalf of any person or entity other than the Company, including without limitation as a proprietor, principal, agent, partner, officer, director, stockholder, employee, member of any association, contractor, consultant or otherwise:

(i) Engaging in any business activity, in any geographic market in which the Company is then engaged in business that is competitive with the business of the Company; or

(ii) Hiring or soliciting for employment any person who is then an employee of the Company; or

(iii) Inducing or attempting to induce any person to end his or her employment relationship with the Company; or

(iv) Soliciting business concerning any business (as described in Section (i) above) from any person or entity who is, or who was, a client, customer, prospective client or prospective customer of the Company; or

(v) Taking any action to divert business from, or inducing or attempting to induce any customer or prospective customer or any vendor, supplier or other business relation to cease doing business with the Company.

"Improper Use of Confidential Information" means:

(i) Any use or disclosure of Confidential Information except as required for the performance of your duties as an employee of the Company;

(ii) Any act or omission that directly or indirectly would materially reduce the value of Confidential Information except for such acts or omissions that are required for the performance of your duties as an employee of the Company.

(iii) Notwithstanding anything in Sections (i) or (ii) above, Improper Use of Confidential Information does not include:

(A) any disclosure, use or other act or omission that is expressly authorized in writing, in advance by the Company; or

(B) any required disclosure of Confidential Information by law or legal process, if: (x) you provide prompt notice to the Company in writing, and prior to disclosing any Confidential Information, so that the Company may elect to seek an appropriate protective order to prevent disclosure at the Company's option and expense; and (y) you cooperate with the Company in any efforts to seek a protective order.

For purposes of this definition, "Confidential Information" means any non-public information regarding the Company or any of its owners, directors, representatives, agents, employees, suppliers, vendors, shareholders, members, clients, customers, or other third parties or entities with whom the Company does business and which you have learned or developed in the past as a result of your employment by or association with the Company or which you learn or develop while providing services to the Company. Confidential Information includes, but is not limited to, trade secrets, information about customers, prospective customers, marketing strategies, business strategies, sales strategies, products, services, key personnel, suppliers, pricing, technology, computer software code, methods,

processes, designs, research, development systems, techniques, finances, accounting, purchasing, forecasts, or planning. All information disclosed to you or to which you obtain access in whatever form, whether originated by you or by others, during the period that you provide services to the Company will be presumed to be Confidential Information if it is treated by the Company as being Confidential Information or if you have a reasonable basis to believe it to be Confidential Information. For these purposes, Confidential Information will not include knowledge or information: (i) that is now or subsequently becomes generally publicly known, other than as a direct or indirect result of Improper Use or Disclosure of Confidential Information by you; or (ii) that is independently made available to you in good faith by a third party who has not violated any legal duty or confidential relationship with the Company.

In the event Participant ceases to be a Service Provider for any or no reason before Participant vests in the Restricted Stock Units, the Restricted Stock Units and Participant's right to acquire any Shares hereunder will immediately terminate.

By Participant's signature and the signature of the representative of Flexsteel Industries, Inc. (the "Company") below, Participant and the Company agree that this Award of Restricted Stock Units is granted under and governed by the terms and conditions of the Plan and this Award Agreement, including the Terms and Conditions of Restricted Stock Unit Grant, attached hereto as Exhibit A, all of which are made a part of this document. Participant has reviewed the Plan and this Award Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Award Agreement and fully understands all provisions of the Plan and Award Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Award Agreement. Participant further agrees to notify the Company upon any change in the residence address indicated below.

PARTICIPANT

FLEXSTEEL INDUSTRIES, INC.

Signature

By

Print Name

Title

Address:

EXHIBIT A

TERMS AND CONDITIONS OF RESTRICTED STOCK UNIT GRANT

1. Grant. The Company hereby grants to the individual named in the Notice of Grant (the “Participant”) under the Plan an Award of Restricted Stock Units, subject to all of the terms and conditions in this Award Agreement and the Plan, which is incorporated herein by reference. Subject to Section 18(c) of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Award Agreement, the terms and conditions of the Plan will prevail.

2. Company’s Obligation to Pay. Each Restricted Stock Unit represents the right to receive a Share on the date it vests. Unless and until the Restricted Stock Units will have vested in the manner set forth in Sections 3 or 4, Participant will have no right to payment of any such Restricted Stock Units. Prior to actual payment of any vested Restricted Stock Units, such Restricted Stock Units will represent an unsecured obligation of the Company, payable (if at all) only from the general assets of the Company. Any Restricted Stock Units that vest in accordance with Sections 3 or 4 will be paid to Participant (or in the event of Participant’s death, to his or her estate) in whole Shares, subject to Participant satisfying any applicable tax withholding obligations as set forth in Section 7. Subject to the provisions of Section 4, such vested Restricted Stock Units shall be paid in whole Shares as soon as practicable after vesting, but in each such case within the period sixty (60) days following the vesting date. In no event will Participant be permitted, directly or indirectly, to specify the taxable year of the payment of any Restricted Stock Units payable under this Award Agreement.

3. Vesting Schedule. Except as provided in Section 4, and subject to Section 5, the Restricted Stock Units awarded by this Award Agreement will vest in accordance with the vesting provisions set forth in the Notice of Grant. Restricted Stock Units scheduled to vest on a certain date or upon the occurrence of a certain condition will not vest in Participant in accordance with any of the provisions of this Award Agreement, unless Participant will have been continuously a Service Provider from the Date of Grant until the date such vesting occurs.

4. Administrator Discretion. The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested Restricted Stock Units at any time, subject to the terms of the Plan. If so accelerated, such Restricted Stock Units will be considered as having vested as of the date specified by the Administrator. The payment of Shares vesting pursuant to this Section 4 shall in all cases be paid at a time or in a manner that is exempt from, or complies with, Section 409A.

Notwithstanding anything in the Plan or this Award Agreement to the contrary, if the vesting of the balance, or some lesser portion of the balance, of the Restricted Stock Units is accelerated in connection with Participant’s termination as a Service Provider (provided that such termination is a “separation from service” within the meaning of Section 409A, as determined by the Company), other than due to death, and if (x) Participant is a “specified employee” within the meaning of Section 409A at the time of such termination as a Service Provider and (y) the payment of such accelerated Restricted Stock Units will result in the imposition of additional tax under Section 409A if paid to Participant on or within the six (6) month period following Participant’s termination as a Service Provider, then the payment of such accelerated Restricted Stock Units will not be made until the date six (6) months and one (1) day following the date of Participant’s termination as a Service Provider, unless the Participant dies following his or her termination as a Service Provider, in which case, the Restricted Stock Units will be paid in Shares to the Participant’s estate as soon as practicable following his or her death. It is the intent of this Award Agreement that it and all payments and benefits hereunder be exempt from, or comply with, the requirements of Section 409A so that none of the Restricted Stock Units provided under this Award Agreement or Shares issuable thereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to be so exempt or so comply. Each payment payable under this Award Agreement is intended to constitute a separate payment for purposes of Treasury Regulation Section 1.409A-2(b)(2). For purposes of this Award Agreement, “Section 409A” means Section 409A of the Code, and any final Treasury Regulations and Internal Revenue Service guidance thereunder, as each may be amended from time to time.

5. Forfeiture upon Termination of Status as a Service Provider. Notwithstanding any contrary provision of this Award Agreement, except to the extent provided in the Notice of Grant, the balance of the Restricted

Stock Units that have not vested as of the time of Participant's termination as a Service Provider for any or no reason and Participant's right to acquire any Shares hereunder will immediately terminate.

6. Death of Participant. Any distribution or delivery to be made to Participant under this Award Agreement will, if Participant is then deceased, be made to Participant's designated beneficiary, or if no beneficiary survives Participant, the administrator or executor of Participant's estate. Any such transferee must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.

7. Withholding of Taxes. Participant acknowledges that, regardless of any action taken by the Company, the ultimate liability for any tax and/or social insurance liability obligations and requirements in connection with the Restricted Stock Units, including, without limitation, (i) all federal, state, and local taxes (including Participant's Federal Insurance Contributions Act (FICA) obligations) that are required to be withheld by the Company or other payment of tax-related items related to Participant's participation in the Plan and legally applicable to Participant; (ii) Participant's and, to the extent required by the Company, the Company's fringe benefit tax liability, if any, associated with the grant, vesting, or settlement of the Restricted Stock Units or sale of Shares; and (iii) any other Company taxes the responsibility for which Participant has, or has agreed to bear, with respect to the Restricted Stock Units (or settlement thereof or issuance of Shares thereunder) (collectively, the "Tax Obligations"), is and remains Participant's sole responsibility and may exceed the amount actually withheld by the applicable Company. Participant further acknowledges that the Company does not (A) make any representations or undertakings regarding the treatment of any Tax Obligations in connection with any aspect of the Restricted Stock Units, including, but not limited to, the grant, vesting or settlement of the Restricted Stock Units, the subsequent sale of Shares acquired pursuant to such settlement and the receipt of any dividends or other distributions, and (B) make any commitment to and is under any obligation to structure the terms of the grant or any aspect of the Restricted Stock Units to reduce or eliminate Participant's liability for Tax Obligations or achieve any particular tax result. Further, if Participant is subject to Tax Obligations in more than one jurisdiction between the Date of Grant and the date of any relevant taxable or tax withholding event, as applicable, Participant acknowledges that the Company may be required to withhold or account for Tax Obligations in more than one jurisdiction.

Pursuant to such procedures as the Administrator may specify from time to time, the Company may withhold the amount required to be withheld for the payment of Tax Obligations (the "Withholding Obligations"). The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit Participant to satisfy such Withholding Obligations, in whole or in part (without limitation), if permissible by applicable local law, by: (i) paying cash in U.S. dollars, (ii) having the Company withhold otherwise deliverable Shares having a fair market value equal to the minimum amount that is necessary to meet the withholding requirement for such Withholding Obligations (or such greater amount as Participant may elect if permitted by the Administrator, if such greater amount would not result in adverse financial accounting consequences) ("Net Share Withholding"), (iii) withholding the amount of such Withholding Obligations from Participant's wages or other cash compensation paid to Participant by the Company, (iv) delivering to the Company Shares that Participant owns and that already have vested with a fair market value equal to the Withholding Obligations (or such greater amount as Participant may elect if permitted by the Administrator, if such greater amount would not result in adverse financial accounting consequences), (v) selling a sufficient number of such Shares otherwise deliverable to Participant, through such means as the Company may determine in its sole discretion (whether through a broker or otherwise) equal to the minimum amount that is necessary to meet the withholding requirement for such Withholding Obligations (or such greater amount as Participant may elect if permitted by the Administrator, if such greater amount would not result in adverse financial accounting consequences) ("Sell to Cover"), (vi) such other means as the Administrator deems appropriate, or (vii) any combination of the foregoing methods of payment. If the Withholding Obligations are satisfied by withholding in Shares, for tax purposes, Participant is deemed to have been issued the full number of Shares subject to the vested Restricted Stock Units, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Withholding Obligations. To the extent determined appropriate by the Company in its discretion, it will have the right (but not the obligation) to satisfy any Withholding Obligations by Net Share Withholding. If Net Share Withholding is the method by which such Withholding Obligations are satisfied, the Company will not withhold on a fractional Share basis to satisfy any portion of the Withholding Obligations and, unless the Company determines otherwise, no refund will be made to Participant for the value of the portion of a Share, if any, withheld in excess of the Withholding Obligations. If a Sell to Cover is the method by which Withholding Obligations are satisfied, Participant agrees that as part of the Sell to Cover, additional Shares may be sold to satisfy any associated broker or

other fees. Only whole Shares will be sold pursuant to a Sell to Cover. Any proceeds from the sale of Shares pursuant to a Sell to Cover that are in excess of the Withholding Obligations and any associated broker or other fees will be paid to Participant in accordance with procedures the Company may specify from time to time.

Participant is advised to review with his or her own tax advisers the U.S. federal, state, local and non-U.S. tax consequences of the transactions contemplated by this Award Agreement. With respect to such matters, Participant relies solely on such advisers and not on any statements or representations of the Company or any of its agents, written or oral. Participant understands that Participant (and not the Company) shall be responsible for Participant's own tax liability that may arise as a result of the transactions contemplated by this Award Agreement.

For clarification purposes, in no event will the Company issue Participant any Shares unless and until arrangements satisfactory to the Administrator have been made for the payment of Participant's Withholding Obligations. If Participant fails to make satisfactory arrangements for the payment of such Withholding Obligations hereunder at the time any applicable Restricted Stock Units otherwise are scheduled to vest pursuant to this Award Agreement or Participant's Withholding Obligations otherwise become due, Participant permanently will forfeit such Restricted Stock Units to which Participant's Withholding Obligation relates and any right to receive Shares thereunder and such Restricted Stock Units will be returned to the Company at no cost to the Company. Participant acknowledges and agrees that the Company may permanently refuse to issue or deliver the Shares if such Withholding Obligations are not delivered at the time they are due.

8. Rights as Stockholder. Neither Participant nor any person claiming under or through Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to Participant. After such issuance, recordation and delivery, Participant will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

9. No Guarantee of Continued Service. PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF THE RESTRICTED STOCK UNITS PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS AWARD OF RESTRICTED STOCK UNITS OR ACQUIRING SHARES HEREUNDER. PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AWARD AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND WILL NOT INTERFERE IN ANY WAY WITH PARTICIPANT'S RIGHT OR THE RIGHT OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) TO TERMINATE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

10. Address for Notices. Any notice to be given to the Company under the terms of this Award Agreement will be addressed to the Company at Flexsteel Industries, Inc., 385 Bell Street, Dubuque, Iowa 52001-0877, or at such other address as the Company may hereafter designate in writing.

11. Grant is Not Transferable. Except to the limited extent provided in Section 6, this grant and the rights and privileges conferred hereby will not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this grant, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

12. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Award Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

13. Additional Conditions to Issuance of Stock. If at any time the Company will determine, in its discretion, that the listing, registration, qualification or rule compliance of the Shares upon any securities exchange or under any state, federal or foreign law, the tax code and related regulations or the consent or approval of any governmental regulatory authority is necessary or desirable as a condition to the issuance of Shares to Participant (or his or her estate) hereunder, such issuance will not occur unless and until such listing, registration, qualification, rule compliance, consent or approval will have been completed, effected or obtained free of any conditions not acceptable to the Company. Where the Company determines that the delivery of the payment of any Shares will violate federal securities laws or other applicable laws, the Company will defer delivery until the earliest date at which the Company reasonably anticipates that the delivery of Shares will no longer cause such violation. The Company will make all reasonable efforts to meet the requirements of any such state, federal or foreign law or securities exchange and to obtain any such consent or approval of any such governmental authority or securities exchange.

14. Plan Governs. This Award Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Award Agreement and one or more provisions of the Plan, the provisions of the Plan will govern. Capitalized terms used and not defined in this Award Agreement will have the meaning set forth in the Plan.

15. Administrator Authority. The Administrator will have the power to interpret the Plan and this Award Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Restricted Stock Units have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon Participant, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Award Agreement.

16. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to Restricted Stock Units awarded under the Plan or future Restricted Stock Units that may be awarded under the Plan by electronic means or request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

17. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Award Agreement.

18. Agreement Severable. In the event that any provision in this Award Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Award Agreement.

19. Modifications to the Award Agreement. This Award Agreement constitutes the entire understanding of the parties on the subjects covered. Participant expressly warrants that he or she is not accepting this Award Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Award Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Award Agreement, the Company reserves the right to revise this Award Agreement as it deems necessary or advisable, in its sole discretion and without the consent of Participant, to comply with Section 409A or to otherwise avoid imposition of any additional tax or income recognition under Section 409A in connection to this Award of Restricted Stock Units.

20. Amendment, Suspension or Termination of the Plan. By accepting this Award, Participant expressly warrants that he or she has received an Award of Restricted Stock Units under the Plan, and has received, read and understood a description of the Plan. Participant understands that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time.

21. Governing Law. This Award Agreement will be governed by the laws of Iowa without giving effect to the conflict of law principles thereof. For purposes of litigating any dispute that arises under this Award of Restricted Stock Units or this Award Agreement, the parties hereby submit to and consent to the jurisdiction of the State of Iowa

and agree that such litigation will be conducted in the courts of Dubuque County, Iowa, or the federal courts for the United States for the District of Iowa, and no other courts, where this Award of Restricted Stock Units is made and/or to be performed.

Ex. A-5

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: February 8, 2023

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

CERTIFICATION

I, G. Alejandro Huerta, 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: February 8, 2023

/s/ G. Alejandro Huerta
G. Alejandro Huerta
Chief Financial Officer

**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, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Jerald K. Dittmer, Chief Executive Officer, and G. Alejandro Huerta, Chief Financial 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: February 8, 2023

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

/s/ G. Alejandro Huerta
G. Alejandro Huerta
Chief Financial Officer
