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 September 30, 2015

or

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

Commission file number **0-5151**

FLEXSTEEL INDUSTRIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Incorporated in State of Minnesota	42-0442319
(State or other Jurisdiction of Incorporation or Organization)	(I.R.S. Identification No.)

385 BELL STREET
DUBUQUE, IOWA 52001-0877
(Address of Principal Executive Offices) (Zip Code)

(563) 556-7730
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒. No ☐.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒. No ☐.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one).

Large accelerated filer ☐	Accelerated filer ☒	Non-accelerated filer ☐	Smaller reporting company ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐. No ☒.

Common Stock - $1.00 Par Value	
Shares Outstanding as of October 7, 2015	7,556,871

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Amounts in thousands, except share and per share data)

	September 30, 2015	June 30, 2015
ASSETS		
CURRENT ASSETS:		
Cash	$ 1,865	$ 1,282
Trade receivables – less allowances: September 30, 2015, $1,350; June 30, 2015, $1,400	46,643	45,101
Inventories	108,872	113,842
Deferred income taxes	4,780	4,220
Other	6,770	6,777
Total current assets	168,930	171,222
NON-CURRENT ASSETS:		
Property, plant and equipment, net	64,796	64,770
Deferred income taxes	1,380	1,870
Other assets	5,686	6,757
TOTAL	$ 240,792	$ 244,619
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable – trade	$ 14,367	$ 18,329
Notes payable – current	6,807	11,904
Accrued liabilities:		
Payroll and related items	5,694	7,931
Insurance	4,252	4,308
Other	12,217	8,848
Total current liabilities	43,337	51,320
LONG-TERM LIABILITIES:		
Supplemental retirement plans	1,817	2,915
Other liabilities	3,762	3,637
Total liabilities	48,916	57,872
SHAREHOLDERS' EQUITY:		
Cumulative preferred stock – $50 par value; authorized 60,000 shares; outstanding – none		
Undesignated (subordinated) stock – $1 par value; authorized 700,000 shares; outstanding – none		
Common stock – $1 par value; authorized 15,000,000 shares; outstanding September 30, 2015, 7,556,871 shares; outstanding June 30, 2015, 7,480,367 shares	7,557	7,480
Additional paid-in capital	19,586	18,827
Retained earnings	166,578	162,176
Accumulated other comprehensive loss	(1,845)	(1,736)
Total shareholders' equity	191,876	186,747
TOTAL	$ 240,792	$ 244,619

See accompanying Notes to Consolidated Financial Statements (Unaudited).

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

	Three Months Ended September 30,	
	2015	2014
NET SALES	$ 126,531	$ 108,666
COST OF GOODS SOLD	(98,662)	(83,146)
GROSS MARGIN	27,869	25,520
SELLING, GENERAL AND ADMINISTRATIVE	(18,490)	(18,391)
OPERATING INCOME	9,379	7,129
OTHER INCOME (EXPENSE):		
Other (expense) income	(50)	619
Interest expense	(37)	—
Total	(87)	619
INCOME BEFORE INCOME TAXES	9,292	7,748
INCOME TAX PROVISION	(3,530)	(2,870)
NET INCOME	$ 5,762	$ 4,878
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:		
Basic	7,508	7,371
Diluted	7,761	7,667
EARNINGS PER SHARE OF COMMON STOCK:		
Basic	$ 0.77	$ 0.66
Diluted	$ 0.74	$ 0.64
CASH DIVIDENDS DECLARED PER COMMON SHARE	$ 0.18	$ 0.18

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Amounts in thousands)	Three Months Ended September 30,	
	2015	2014
NET INCOME	$ 5,762	$ 4,878
OTHER COMPREHENSIVE LOSS:		
UNREALIZED LOSS ON SECURITIES IN SUPPLEMENTAL RETIREMENT PLANS	(268)	(29)
RECLASSIFICATION OF REALIZED GAIN (LOSS) ON SUPPLEMENTAL RETIREMENT PLANS TO OTHER INCOME	92	(145)
OTHER COMPREHENSIVE LOSS BEFORE TAXES	(176)	(174)
INCOME TAX BENEFIT RELATED TO SUPPLEMENTAL RETIREMENT PLANS LOSS	67	66
OTHER COMPREHENSIVE LOSS, NET OF TAX	(109)	(108)
COMPREHENSIVE INCOME	$ 5,653	$ 4,770

See accompanying Notes to Consolidated Financial Statements (Unaudited).

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

(Amounts in thousands)	Three Months Ended September 30, 2015	2014
OPERATING ACTIVITIES:		
Net income	$ 5,762	$ 4,878
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	1,742	1,096
Deferred income taxes	(3)	86
Stock-based compensation expense	171	282
Excess tax (benefit) expense from share-based payments	(20)	113
Change in provision for losses on accounts receivable	(50)	(19)
Gain on disposition of capital assets	—	(21)
Changes in operating assets and liabilities:		
Trade receivables	(1,492)	(2,387)
Inventories	4,970	(8,220)
Other current assets	846	(1,165)
Other assets	—	(409)
Accounts payable – trade	(3,641)	9,565
Accrued liabilities	(567)	(618)
Supplemental retirement plans	664	227
Other long-term liabilities	126	(254)
Net cash provided by operating activities	8,508	3,154
INVESTING ACTIVITIES:		
Purchases of investments, net	(149)	(1,318)
Proceeds from sales of investments	94	1,228
Proceeds from sale of capital assets	—	26
Capital expenditures	(2,090)	(25,841)
Net cash used in investing activities	(2,145)	(25,905)
FINANCING ACTIVITIES:		
(Repayments of) proceeds from current notes payable, net	(5,097)	11,996
Dividends paid	(1,347)	(1,106)
Proceeds from issuance of common stock	644	105
Excess tax benefit (expense) from share-based payment	20	(113)
Net cash (used in) provided by financing activities	(5,780)	10,882
Increase (decrease) in cash	583	(11,869)
Cash at beginning of period	1,282	22,176
Cash at end of period	$ 1,865	$ 10,307

SUPPLEMENTAL INFORMATION

(Amounts in thousands)	Three Months Ended September 30, 2015	2014
Income taxes paid, net	$ 150	$ 1,510
Capital expenditures in accounts payable	142	131
Interest paid	37	—

See accompanying Notes to Consolidated Financial Statements (Unaudited).

1. The consolidated financial statements included herein have been prepared by Flexsteel Industries, Inc. and Subsidiaries (the “Company” or “Flexsteel”), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The information furnished in the consolidated financial statements includes normal recurring adjustments and reflects all adjustments, which are, in the opinion of management, necessary for a fair presentation of such consolidated financial statements. Operating results for the three month period ended September 30, 2015, are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2016. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. Except to the extent updated or described below, the significant accounting policies set forth in Note 1 to the consolidated financial statements in the Company’s Annual Report on Form 10-K for the year ended June 30, 2015, appropriately represent, in all material respects, the current status of accounting policies and are incorporated by reference.

DESCRIPTION OF BUSINESS – Flexsteel Industries, Inc. and Subsidiaries (the “Company”) was incorporated in 1929 and is one of the oldest and largest manufacturers, importers and marketers of residential and commercial upholstered and wood furniture products in the United States. Product offerings include a wide variety of upholstered and wood furniture such as sofas, loveseats, chairs, reclining and rocker-reclining chairs, swivel rockers, sofa beds, convertible bedding units, occasional tables, desks, dining tables and chairs and bedroom furniture. The Company’s products are intended for use in home, office, hotel, healthcare and other commercial applications. A featured component in most of the upholstered furniture is a unique steel drop-in seat spring from which our name “Flexsteel” is derived. The Company distributes its products throughout the United States through the Company’s sales force and various independent representatives.

2. INVENTORIES

The Company values inventory at the lower of cost or net realizable value. Raw steel is valued on the last-in, first-out (“LIFO”) method. Other inventories are valued on the first-in, first-out (“FIFO”) method. Inventories valued on the LIFO method would have been approximately $1.4 million and $1.6 million higher at September 30, 2015 and June 30, 2015, respectively, if they had been valued on the FIFO method. At September 30, 2015 and June 30, 2015, the total value of LIFO inventory was $3.5 million and $2.6 million, respectively. A comparison of inventories is as follows:

(in thousands)	September 30, 2015	June 30, 2015
Raw materials	$ 13,392	$ 12,663
Work in process and finished parts	6,881	5,772
Finished goods	88,599	95,407
Total	$ 108,872	$ 113,842

3. FAIR VALUE MEASUREMENTS

The Company’s cash, accounts receivable, other current assets, accounts payable and certain accrued liabilities are carried at amounts which reasonably approximate their fair value due to their short-term nature. Generally accepted accounting principles on fair value measurement for certain financial assets and liabilities require that each asset and liability carried at fair value be classified into one of the following categories: Level 1: Quoted market prices in active markets for identical assets and liabilities; Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data; or Level 3: Unobservable inputs that are not corroborated by market data. The Company has not changed its valuation techniques in measuring the fair value of any financial assets and liabilities during the period.

The Company maintains supplemental retirement plans, collectively referred to as the Supplemental Plan, which provides for additional annual defined contributions toward retirement benefits to certain of the Company's executive officers. Funds of the Supplemental Plan are held in a Rabbi Trust. The assets held in the Rabbi Trust are not available for general corporate purposes. The Rabbi Trust is subject to creditor claims in the event of insolvency, but otherwise must be used only for purposes of providing benefits under the plans. As of September 30, 2015, the Company's Supplemental Plan assets, held in the Rabbi Trust, were invested in stock and bond funds and are recorded in the Consolidated Balance Sheets at fair market value. As of September 30, 2015, the Supplemental Plan Assets were $3.3 million, with $1.9 million of the Supplemental Plan assets classified as "other current assets" and $1.4 million as "other assets" in the Consolidated Balance Sheets. As of June 30, 2015, the Supplemental Plan assets were $3.5 million, with $1.1 million classified as "other current assets" and $2.4 million classified as "other assets" in the Consolidated Balance Sheets. These assets are classified as Level 2 in accordance with fair value accounting as described above.

4. CREDIT ARRANGEMENTS

The Company maintains a credit agreement which provides unsecured short-term working capital financing up to $30.0 million with interest of LIBOR plus 1% (1.19% at September 30, 2015), including up to $4.0 million of letters of credit. Letters of credit outstanding at September 30, 2015 totaled $2.6 million. At September 30, 2015, outstanding borrowings were $6.8 million, which is classified as "notes payable – current" in the Consolidated Balance Sheets, in addition to the aforementioned letters of credit, leaving borrowing availability of $20.6 million. The credit agreement expires December 31, 2016. At September 30, 2015, the Company was in compliance with all of the financial covenants contained in the credit agreement.

An officer of the Company is a director at a bank where the Company maintains an additional unsecured $10.0 million line of credit, with interest at prime minus 2% (1.25% at September 30, 2015), and where its routine banking transactions are processed. No amount was outstanding on the line of credit at September 30, 2015. This line of credit matures December 31, 2016. In addition, the Supplemental Plan assets, held in a Rabbi Trust, of $3.3 million are administered by this bank's trust department. The Company receives no special services or pricing on the services performed by the bank due to the directorship of this officer.

Fair value of the Company's debt approximates the carrying value.

5. STOCK BASED COMPENSATION

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

(1) Long-Term Incentive Compensation Plans

Long-Term Incentive Compensation Plan

The long-term incentive compensation plan provides for shares of common stock to be awarded to officers and key employees based on performance targets set by the Compensation Committee of the Board of Directors (the "Committee"). In December 2013, the Company's shareholders approved 700,000 shares to be issued under the plan. As of September 30, 2015, 2,594 shares have been issued. The Committee selected fully-diluted earnings per share as the performance goal for the three-year performance periods July 1, 2013 – June 30, 2016 (2014-2016), July 1, 2014 – June 30, 2017 (2015-2017) and July 1, 2015 – June 30, 2018 (2016-2018). Stock awards will be issued to participants as soon as practicable following the end of the performance periods subject to Committee approval and verification of results. The compensation cost related to the number of shares to be granted under each performance period is fixed on the grant date, which is the date the performance period begins.

The Company recorded expense of $0.3 million for the quarter ended September 30, 2015. If the target performance goals for 2014-2016, 2015-2017 and 2016-2018 would be achieved, the amount of compensation cost recognized over the requisite service periods would be $1.0 million for each of the three service periods.

2007 Long-Term Management Incentive Plan (2007 Plan)

The plan provided for shares of common stock and cash to be awarded to officers and key employees based on performance targets set by the Compensation Committee of the Board of Directors (the "Committee"). The Company's shareholders approved 500,000 shares to be issued under the plan. Due to the adoption of the Long-Term Incentive Compensation Plan in December 2013, no additional shares can be awarded under the 2007 Plan. As of September 30, 2015, 240,325 shares have been issued. The Committee selected consolidated operating results for organic net sales growth and fully-diluted earnings per share as the performance goal for the three-year performance periods. Payouts for awards earned in these performance periods were 60% stock and 40% cash. Awards were paid to participants as soon as practicable following the end of the performance periods subject to Committee approval and verification of results. The compensation cost related to the number of shares granted under each performance period was fixed on the grant date, which was the date the performance period began. The short-term portion of the recorded cash award payable is classified within current liabilities, payroll and related items, and the long-term portion of the recorded cash award payable is classified within other long-term liabilities in the Consolidated Balance Sheets. As of September 30, 2015 the Company had no liability outstanding for the plan. As of June 30, 2015, the Company recorded cash awards payable of $0.7 million within current liabilities. The Company recorded no expense during the quarter ended September 30, 2015 and $0.7 million during the prior year quarter, respectively.

(2) Stock Plans

Omnibus Stock Plan

The 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. In December 2013, the Company's shareholders approved 700,000 shares to be issued under the plan. The options are exercisable up to 10 years from the date of grant. It is the Company's policy to issue new shares upon exercise of stock options. The Company accepts shares of the Company's common stock as payment for the exercise price of options. These shares received as payment are retired upon receipt.

At September 30, 2015, 572,682 shares were available for future grants. During the quarter ended September 30, 2015, the Company recorded expense of $0.2 million related to this plan. During the quarter ended September 30, 2014, the Company recorded no expense related to this plan.

2006 and 2009 Stock Option Plans

The stock option plans were for key employees, officers and directors and provided for granting incentive and nonqualified stock options. Under the plans, options were granted at an exercise price equal to the fair market value of the underlying common stock at the date of grant and exercisable for up to 10 years. All options were exercisable when granted. No additional options can be granted under the 2006 and 2009 stock option plans.

There were no options granted and no expense was recorded under these Plans during the quarter ended September 30, 2015.

A summary of the status of the Company's stock plans as of September 30, 2015, June 30, 2015 and 2014 and the changes during the periods then ended is presented below:

	Shares (in thousands)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Outstanding and exercisable at June 30, 2014	524	$ 15.39	$ 9,403
Granted	49	31.48	
Exercised	(110)	15.52	
Canceled	(6)	16.98	
Outstanding and exercisable at June 30, 2015	457	17.02	11,916
Granted	26	43.09	
Exercised	(46)	13.80	
Canceled	(5)	24.54	
Outstanding and exercisable at September 30, 2015	432	$ 18.85	$ 5,682

The following table summarizes information for options outstanding and exercisable at September 30, 2015:

Range of Prices	Options Outstanding and Exercisable (in thousands)	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price
$ 6.81 – 8.55	85	3.8	$ 7.77
12.35 – 14.40	120	3.1	13.11
17.23 – 22.82	110	6.3	19.11
27.38 – 43.09	117	8.9	32.55
$ 6.81 – 43.09	432	5.6	$ 18.85

6. 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 management incentive compensation plan and non-vested shares. The Company calculates the dilutive effect of outstanding options using the treasury stock method. Anti-dilutive shares 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. The Company calculates the dilutive effect of shares related to the long-term management incentive compensation plan based on the number of shares, if any, that would be issuable if the end of the fiscal period were the end of the contingency period.

In computing EPS for the quarters ended September 30, 2015 and 2014, net income as reported for each respective period is divided by the fully diluted weighted average number of shares outstanding:

(in thousands)	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014
Basic shares	7,508	7,371
Potential common shares:		
Stock options	212	283
Long-term incentive plan	41	13
	253	296
Diluted shares	7,761	7,667
Anti-dilutive shares	26	—

7. LITIGATION

Indiana Civil Litigation – During the quarter ended December 31, 2013, the Company entered into an agreement to settle the Indiana Civil Litigation for $6.3 million. During the quarters ended September 30, 2015 and 2014, the Company recorded $0.1 million of legal expenses incurred pursuing insurance coverage. These expenses are included in "selling, general and administrative" (SG&A) expense in the Consolidated Statements of Income.

The Company will continue to pursue the recovery of additional defense and settlement costs from insurance carriers. Based on policy language and jurisdiction, insurance coverage is in question. The Iowa District Court dismissed litigation filed by the Company's insurance carriers in Iowa after the Iowa Court of Appeals found that Indiana law applied to the insurance policies in question and the Iowa Supreme Court denied further review. The dismissal has been appealed by the insurance carriers to the Iowa Supreme Court. Concurrently, coverage litigation is proceeding against the insurance carriers in Indiana.

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 2015 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 quarter ended September 30, 2015 and 2014. Amounts presented are percentages of the Company's net sales.

	Three Months Ended September 30,	
	2015	2014
Net sales	100.0%	100.0%
Cost of goods sold	(78.0)	(76.5)
Gross margin	22.0	23.5
Selling, general and administrative	(14.6)	(16.9)
Operating income	7.4	6.6
Other (expense) income, net	—	0.5
Income before income taxes	7.4	7.1
Income tax provision	(2.8)	(2.6)
Net income	4.6%	4.5%

The following table compares net sales for the quarter ended September 30, (in millions):

	2015	2014	$ Change	% Change
Residential	$ 106.3	$ 91.4	$ 14.9	16.3%
Commercial	20.2	17.2	3.0	17.2%
Total	$ 126.5	$ 108.6	$ 17.9	16.4%

Results of Operations for the Quarter Ended September 30, 2015 vs. 2014

Net sales for the quarter ended September 30, 2015 were $126.5 million, a 16.4% increase compared to $108.6 million in the prior year quarter. Residential net sales were $106.3 million in the current quarter, an increase of 16.3% from the prior year quarter of $91.4 million, which primarily reflects increased demand for upholstered furniture and to a lesser extent ready-to-assemble furniture. Commercial net sales were $20.2 million in the current quarter, an increase of 17.2% compared to $17.2 million in the prior year quarter.

Gross margin as a percent of net sales for the quarter ended September 30, 2015 was 22.0% compared to 23.5% for the prior year quarter, representing a decrease of approximately $2 million. The Company is making long-term strategic investments in an expanded distribution network, designed to meet current and future customer needs while improving operations. In the current quarter this negatively impacted gross margin by $1.3 million or 1.0%.

Selling, general and administrative (SG&A) expenses were 14.6% of net sales in the current year quarter, compared to 16.9% in the prior year quarter. The improvement in SG&A as a percentage of net sales for the quarter reflects fixed cost leverage on higher sales volume of $1.9 million and lower direct selling costs of $1.0 million primarily due to timing of expenditures.

In the prior year quarter, the Company realized a non-taxable gain on life insurance of $0.4 million, or $0.06 per share. The gain is included in "interest and other income" in the Consolidated Statements of Income.

The effective income tax expense rate for the current quarter was 38.0% compared to an income tax expense rate of 37.0% in the prior year quarter. The effective rates include the federal statutory rate as well as the effect of the various state taxing jurisdictions.

The above factors resulted in net income for the quarter ended September 30, 2015 of $5.8 million or $0.74 per share compared to $4.9 million or $0.64 per share in the prior year quarter.

All earnings per share amounts are on a diluted basis.

Liquidity and Capital Resources

Working capital (current assets less current liabilities) at September 30, 2015 was $125.6 million compared to $119.9 million at June 30, 2015. Primary changes in working capital include decreases in inventory of $5.0 million, current borrowings of $5.1 million and accounts payable of $3.6 million, and an increase in accounts receivable of $1.5 million. The decrease in inventory is due to improving efficiency of the expanded distribution network which contributed to increased net sales. The increase in accounts receivable is due to the increase in net sales and the timing of collections. The decrease in accounts payable is due to timing of payments. Capital expenditures were $2.1 million and dividend payments totaled $1.3 million for the quarter.

The Company maintained a credit agreement which provided working capital financing up to $30.0 million with interest of LIBOR plus 1% (1.19% at September 30, 2015), including up to $4.0 million of letters of credit. Letters of credit outstanding at September 30, 2015 totaled $2.6 million. At September 30, 2015, outstanding borrowings were $6.8 million, which is classified as "notes payable – current" in the Consolidated Balance Sheets, in addition to the aforementioned letters of credit, leaving borrowing availability of $20.6 million. The credit agreement expires December 31, 2016. At September 30, 2015, the Company was in compliance with all of the financial covenants contained in the credit agreement.

An officer of the Company is a director at a bank where the Company maintains an additional unsecured $10.0 million line of credit, with interest at prime minus 2% (1.25% at September 30, 2015), and where its routine banking transactions are processed. No amount was outstanding on the line of credit at September 30, 2015. This line of credit matures December 31, 2016. In addition, the Supplemental Plan assets, held in a Rabbi Trust, of $3.3 million are administered by this bank's trust department. The Company receives no special services or pricing on the services performed by the bank due to the directorship of this officer.

Net cash provided by operating activities of $8.5 million in the quarter ended September 30, 2015 was comprised primarily of net income of $5.8 million and increases in accounts receivable of $1.5 million and depreciation of $1.7 million and decreases in inventory of $5.0 million and accounts payable of $3.6 million. Net cash provided by operating activities in the quarter ended September 30, 2014 was $3.1 million.

Net cash used in investing activities was $2.1 million and $25.9 million in the quarter ended September 30, 2015 and 2014, respectively. Capital expenditures were $2.1 million and $25.8 million during the quarter ended September 30, 2015 and 2014, respectively.

Net cash used in financing activities was $5.8 million in the quarter ended September 30, 2015 primarily due to repayment of current borrowings of $5.1 million and dividends paid of $1.3 million. Net cash provided by financing activities was $10.9 million in the quarter ended September 30, 2014, due to proceeds from short-term borrowings of $12.0 million partially offset by dividends paid of $1.1 million.

The timing and level of additional investment required to execute the Company's logistics strategy and develop its business information system requirements will be evaluated as the projects progress. Operating capital expenditures are estimated to be $6 million for the remainder of fiscal 2016. Management believes that the Company has adequate cash flows from operations and credit arrangements to meet its operating and capital requirements for fiscal year 2016. In the opinion of management, the Company's liquidity and credit resources provide it with the ability to react to opportunities as they arise, to pay quarterly dividends to its shareholders, and to purchase productive capital assets that enhance safety and improve operations.

Contractual Obligations

As of September 30, 2015, 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, 2015.

Outlook

The Company expects top line growth will continue during the second fiscal quarter due to strong order trends and backlog of unshipped orders. Residential growth is expected to continue with existing customers and products, and through product portfolio and customer base expansion. The Company believes this growth will be led by increased demand for upholstered and ready-to-assemble products. The Company is confident in its ability to take advantage of market opportunities.

The Company continues to proceed on two multi-year initiatives, designed to enhance customer experience and increase shareholder value. The Company continues to execute its logistics strategy and develop its business information system requirements. The timing and level of additional investment required for these initiatives will be evaluated as the projects progress. Operating capital expenditures are estimated to be $6 million for the remainder of fiscal 2016. The Company believes it has adequate working capital and borrowing capabilities to meet these requirements.

The Company remains committed to its core strategies, which include providing a wide range of quality product offerings and price points to the residential and commercial markets, combined with a conservative approach to business. We will maintain our focus on a strong balance sheet through emphasis on cash flow and increasing profitability. We believe these core strategies are in the best interest of our shareholders.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

General – Market risk represents the risk of changes in the value of a financial instrument, derivative or non-derivative, caused by fluctuations in interest rates, foreign exchange rates and equity prices. As discussed below, management of the Company does not believe that changes in these factors could cause material fluctuations in the Company's results of operations or cash flows. The ability to import furniture products can be adversely affected by political issues in the countries where suppliers are located, disruptions associated with shipping distances and negotiations with port employees. Other risks related to furniture product importation include government imposition of regulations and/or quotas; duties and taxes on imports; and significant fluctuation in the value of the U.S. dollar against foreign currencies. Any of these factors could interrupt supply, increase costs and decrease earnings.

Inflation – Increased operating costs are reflected in product or services pricing with any limitations on price increases determined by the marketplace. Inflation or other pricing pressures could impact raw material costs, labor costs and interest rates which are important components of costs for the Company and could have an adverse effect on our profitability, especially where increases in these costs exceed price increases on finished products.

Foreign Currency Risk – During the quarters ended September 30, 2015 and 2014, the Company did not have sales, but has purchases and other expenses denominated in foreign currencies. The market risk associated with currency exchange rates and prices is not considered significant.

Interest Rate Risk – The Company's primary market risk exposure with regard to financial instruments is changes in interest rates.

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 September 30, 2015.

(b) *Changes in internal control over financial reporting.* During the quarter ended September 30, 2015, there were no significant changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended) that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

Cautionary Statement Relevant to Forward-Looking Information for the Purpose of "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995

The Company and its representatives may from time to time make written or oral forward-looking statements with respect to long-term goals or anticipated results of the Company, including statements contained in the Company's filings with the Securities and Exchange Commission and in its reports to stockholders.

Statements, including those in this Quarterly Report on Form 10-Q, which are not historical or current facts, are "forward-looking statements" made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. There are certain important factors that could cause our results to differ materially from those anticipated by some of the statements made herein. Investors are cautioned that all forward-looking statements involve risk and uncertainty. Some of the factors that could affect results are the cyclical nature of the furniture industry, supply chain disruptions, litigation, the effectiveness of new product introductions and distribution channels, the product mix of sales, pricing pressures, the cost of raw materials and fuel, retention and recruitment of key employees, actions by governments including laws, regulations, taxes and tariffs, inflation, the amount of sales generated and the profit margins thereon, competition (both U.S. and foreign), credit exposure with customers, participation in multi-employer pension plans 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, 2015.

Item 6. Exhibits

31.1	Certification
31.2	Certification
32	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.
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

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: October 21, 2015

By: */S/ Timothy E. Hall*
Timothy E. Hall
Chief Financial Officer
(Principal Financial & Accounting Officer)

CERTIFICATION

I, Karel K. Czanderna, 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: October 21, 2015

By: */S/ Karel K. Czanderna*
Karel K. Czanderna
Chief Executive Officer

CERTIFICATION

I, Timothy E. Hall, 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: October 21, 2015

By: */S/ Timothy E. Hall*
Timothy E. Hall
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 September 30, 2015 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, Karel K. Czanderna, Chief Executive Officer, and Timothy E. Hall, 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: October 21, 2015

By: */S/ Karel K. Czanderna*
Karel K. Czanderna
Chief Executive Officer

By: */S/ Timothy E. Hall*
Timothy E. Hall
Chief Financial Officer