

FLEXSTEEL INDUSTRIES INC
Form 10-Q
October 17, 2014

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

FORM 10-Q

**þ Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2014

or

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

For the transition period from to

Commission file number **0-5151**

FLEXSTEEL INDUSTRIES, INC.
(Exact Name of Registrant as Specified in Its Charter)

Incorporated in State of Minnesota
(State or other Jurisdiction of
Incorporation or Organization)

42-0442319
(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

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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 September 30, 2014

7,403,087

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

| | September 30, 2014 (UNAUDITED) | June 30, 2014 |
|---|--------------------------------------|-------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash | \$ 10,307 | \$ 22,176 |
| Trade receivables less allowances: September 30, 2014, \$1,364; June 30, 2014, \$1,370 | 40,941 | 38,536 |
| Inventories | 106,160 | 97,940 |
| Deferred income taxes | 4,230 | 4,230 |
| Other | 3,782 | 2,528 |
| Total current assets | 165,420 | 165,410 |
| NON-CURRENT ASSETS: | | |
| Property, plant and equipment, net | 56,737 | 31,900 |
| Deferred income taxes | 2,150 | 2,170 |
| Other assets | 11,081 | 10,733 |
| TOTAL | \$ 235,388 | \$ 210,213 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable trade | \$ 25,479 | \$ 15,818 |
| Notes payable | 11,996 | |
| Accrued liabilities: | | |
| Payroll and related items | 6,144 | 8,452 |
| Insurance | 4,813 | 4,602 |
| Other | 9,756 | 7,894 |
| Total current liabilities | 58,188 | 36,766 |
| LONG-TERM LIABILITIES: | | |
| Supplemental retirement plans | 3,692 | 3,396 |
| Other liabilities | 3,062 | 3,316 |
| Total liabilities | 64,942 | 43,478 |
| 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, 2014, 7,403,087 shares; outstanding June 30, 2014, 7,370,735 shares | 7,403 | 7,371 |
| Additional paid-in capital | 15,628 | 15,386 |
| Retained earnings | 148,779 | 145,234 |
| Accumulated other comprehensive loss | (1,364) | (1,256) |
| Total shareholders' equity | 170,446 | 166,735 |
| TOTAL | \$ 235,388 | \$ 210,213 |

See accompanying Notes to Consolidated Financial Statements (Unaudited).

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

| | Three Months Ended September 30, | |
|---|-------------------------------------|------------|
| | 2014 | 2013 |
| NET SALES | \$ 108,666 | \$ 104,348 |
| COST OF GOODS SOLD | (83,146) | (80,703) |
| GROSS MARGIN | 25,520 | 23,645 |
| SELLING, GENERAL AND ADMINISTRATIVE | (18,391) | (18,209) |
| OPERATING INCOME | 7,129 | 5,436 |
| INTEREST AND OTHER INCOME | 619 | 502 |
| INCOME BEFORE INCOME TAXES | 7,748 | 5,938 |
| INCOME TAX PROVISION | (2,870) | (2,170) |
| NET INCOME | \$ 4,878 | \$ 3,768 |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING: | | |
| Basic | 7,371 | 7,125 |
| Diluted | 7,667 | 7,432 |
| EARNINGS PER SHARE OF COMMON STOCK: | | |
| Basic | \$ 0.66 | \$ 0.53 |
| Diluted | \$ 0.64 | \$ 0.51 |
| CASH DIVIDENDS DECLARED PER COMMON SHARE | \$ 0.18 | \$ 0.15 |
| CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Amounts in thousands) | | |

| | Three Months Ended September 30, | |
|---|-------------------------------------|----------|
| | 2014 | 2013 |
| NET INCOME | \$ 4,878 | \$ 3,768 |
| OTHER COMPREHENSIVE (LOSS) INCOME: | | |
| UNREALIZED (LOSS) GAIN ON SECURITIES IN SUPPLEMENTAL RETIREMENT PLANS | (29) | 139 |
| RECLASSIFICATION OF REALIZED LOSS ON SUPPLEMENTAL RETIREMENT PLANS TO OTHER INCOME | (145) | (444) |
| OTHER COMPREHENSIVE LOSS BEFORE TAXES | (174) | (305) |
| INCOME TAX BENEFIT RELATED TO SUPPLEMENTAL RETIREMENT PLANS LOSS | 66 | 116 |
| OTHER COMPREHENSIVE LOSS, NET OF TAX | (108) | (189) |
| COMPREHENSIVE INCOME | \$ 4,770 | \$ 3,579 |
| See accompanying Notes to Consolidated Financial Statements (Unaudited). | | |

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

| | Three Months Ended September 30, | |
|---|-------------------------------------|-----------|
| | 2014 | 2013 |
| OPERATING ACTIVITIES: | | |
| Net income | \$ 4,878 | \$ 3,768 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation | 1,096 | 1,011 |
| Deferred income taxes | 86 | (244) |
| Stock-based compensation expense | 282 | 151 |
| Excess tax expense (benefit) from stock based payment arrangements | 113 | (46) |
| Provision for losses on accounts receivable | (19) | 86 |
| Gain on disposition of capital assets | (21) | (5) |
| Changes in operating assets and liabilities: | | |
| Trade receivables | (2,387) | (2,937) |
| Inventories | (8,220) | (4,714) |
| Other current assets | (1,165) | (413) |
| Other assets | (409) | 17 |
| Accounts payable - trade | 9,565 | 2,445 |
| Accrued liabilities | (618) | 1,570 |
| Other long-term liabilities | (254) | 137 |
| Supplemental retirement plans | 227 | 417 |
| Net cash provided by operating activities | 3,154 | 1,243 |
| INVESTING ACTIVITIES: | | |
| Purchases of investments | (1,318) | (574) |
| Proceeds from sales of investments | 1,228 | 250 |
| Proceeds from sale of capital assets | 26 | 11 |
| Capital expenditures | (25,841) | (679) |
| Net cash used in investing activities | (25,905) | (992) |
| FINANCING ACTIVITIES: | | |
| Proceeds from short-term borrowings | 11,996 | |
| Dividends paid | (1,106) | (1,066) |
| Excess tax benefit from stock based payment arrangements | (113) | 46 |
| Proceeds from issuance of common stock | 105 | 460 |
| Net cash provided by (used in) financing activities | 10,882 | (560) |
| Decrease in cash | (11,869) | (309) |
| Cash at beginning of period | 22,176 | 10,934 |
| Cash at end of period | \$ 10,307 | \$ 10,625 |

SUPPLEMENTAL INFORMATION

(Amounts in thousands)

| | Three Months Ended September 30, | |
|--|-------------------------------------|--------|
| | 2014 | 2013 |
| Income taxes paid, net | \$ 1,510 | \$ 278 |
| Capital expenditures in accounts payable | 131 | 151 |

See accompanying Notes to Consolidated Financial Statements (Unaudited).

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FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE PERIOD ENDED SEPTEMBER 30, 2014

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, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2015. 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, 2014, 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 wooden 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 \$1.6 million and \$1.4 million higher at September 30, 2014 and June 30, 2014, respectively, if they had been valued on the FIFO method. At September 30, 2014 and June 30, 2014 the total value of LIFO inventory was \$2.8 million and \$2.7 million, respectively. A comparison of inventories is as follows:

| (in thousands) | September 30, 2014 | June 30, 2014 |
|------------------------------------|-----------------------|------------------|
| Raw materials | \$ 11,550 | \$ 11,603 |
| Work in process and finished parts | 5,737 | 5,470 |
| Finished goods | 88,873 | 80,867 |
| Total | \$ 106,160 | \$ 97,940 |

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, 2014, 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, 2014, the Supplemental Plan Assets were \$3.8 million, with \$0.8 million of the Supplemental Plan assets classified as Other Current Assets and \$3.0 million as Other Assets in the Consolidated Balance Sheets. As of June 30, 2014, the Supplemental Plan assets were \$3.8 million, with \$0.7 million classified as Other Current Assets and \$3.1 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 short-term working capital financing up to \$25.0 million with interest of LIBOR plus 1% (1.1565% at September 30, 2014), including up to \$4.0 million of letters of credit. Letters of credit outstanding at September 30, 2014 totaled \$2.9 million. The Company utilized \$8.0 million of borrowing availability under the credit facility during the period, which is classified as Notes Payable in the Consolidated Balance Sheets, in addition to the aforementioned letters of credit, leaving borrowing availability of \$14.1 million. The credit agreement expires June 30, 2016. At September 30, 2014, 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 \$8.0 million line of credit, with interest at prime minus 2% (1.25% at September 30, 2014), and where its routine banking transactions are processed. The Company utilized borrowing availability during the period and \$4.0 million was outstanding on the line of credit at September 30, 2014, which is classified as Notes Payable in the Consolidated Balance Sheets. The credit agreement expires February 13, 2015. In addition, the Supplemental Plan assets, held in a Rabbi Trust, of \$3.8 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. EARNINGS PER SHARE

Basic earnings per share (EPS) of common stock is based on the weighted-average number of common shares outstanding during each period. Diluted earnings per share of common stock includes the dilutive effect of potential common shares outstanding. The Company's potential common shares outstanding are stock options and shares associated with the long-term management incentive compensation plan. 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, 2014 and 2013, net income as reported for each respective period is divided by the fully diluted weighted average number of shares outstanding:

| (in thousands) | September 30, | |
|--------------------------|---------------|-------|
| | 2014 | 2013 |
| Basic shares | 7,371 | 7,125 |
| Potential common shares: | | |
| Stock options | 283 | 294 |
| Long-term incentive plan | 13 | 13 |
| | 296 | 307 |
| Diluted shares | 7,667 | 7,432 |
| Anti-dilutive shares | | |

6. ACQUISITION OF ASSETS

On September 26, 2014, the Company completed the acquisition of a 500,000 square foot building on 26.6 acres of land in Edgerton, Kansas for \$24 million, to be used as a distribution facility. The Company utilized cash of \$12 million and borrowing availability of \$12 million to acquire the land and building.

7. LITIGATION

Indiana Civil Litigation In December 2013, the Company entered into a confidential agreement to settle the Indiana Civil Litigation. The Company paid \$6.3 million to Plaintiffs to settle the matter without admission of wrongdoing. The Company continues to believe that it did not cause or contribute to the contamination. This settlement was recorded as litigation settlement costs in the Consolidated Statements of Income.

During the quarters ended September 30, 2014 and 2013, the Company recorded \$0.1 million and \$0.9 million, respectively, in legal and other related expenses that were incurred responding to the lawsuits and pursuing insurance coverage. These expenses are included in 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 Company filed an appeal to the Iowa Supreme Court regarding two adverse opinions of an Iowa District Court regarding coverage issues. The Iowa Court of Appeals reversed the District Court, ruling in favor of the Company, and the Iowa Supreme Court denied further review. The cases have now been returned to the Iowa District Court for further proceedings.

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 2014 annual report on Form 10-K.

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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 months ended September 30, 2014 and 2013. Amounts presented are percentages of the Company's net sales.

| | Three Months Ended September 30, | |
|-------------------------------------|-------------------------------------|--------|
| | 2014 | 2013 |
| Net sales | 100.0% | 100.0% |
| Cost of goods sold | (76.5) | (77.3) |
| Gross margin | 23.5 | 22.7 |
| Selling, general and administrative | (16.9) | (17.5) |
| Operating income | 6.6 | 5.2 |
| Other income, net | 0.5 | 0.5 |
| Income before income taxes | 7.1 | 5.7 |
| Income tax expense | (2.6) | (2.1) |
| Net income | 4.5% | 3.6% |

The following table compares net sales in total and by area of application for the quarter ended September 30, 2014 to the prior year quarter.

| Area of Application | Net Sales | | \$ Change | | % Change |
|---------------------|-----------|--------|----------------|-------|----------|
| | 2014 | 2013 | (in thousands) | | |
| Residential | \$ 92 | \$ 84 | \$ 8 | 9% | |
| Commercial | 17 | 20 | (3) | (15)% | |
| Total | \$ 109 | \$ 104 | \$ 5 | 4% | |

Results of Operations for the Quarter Ended September 30, 2014 vs. 2013

Net sales for the quarter ended September 30, 2014 were \$109 million, a 4% increase compared to \$104 million in the prior year quarter. Residential net sales were \$92 million in the current quarter, an increase of 9% from the prior year quarter of \$84 million. Commercial net sales were \$17 million in the current quarter compared to \$20 million in the prior year, a decrease of 15%.

Gross margin as a percent of net sales for the quarter ended September 30, 2014 was 23.5% compared to 22.7% in the prior year quarter. The improvement is from product mix changes and focus on margin realization.

Selling, general and administrative (SG&A) expenses were \$18.4 million or 16.9% of net sales, compared to \$18.2 million or 17.5% of net sales in the prior year quarter ended September 30, 2013. Indiana civil litigation defense costs in the current quarter were \$0.1 million compared to \$0.9 million in the prior year period.

Operating income for the first quarter ended September 30, 2014 was \$7.1 million compared to operating income of \$5.4 million in the prior year quarter.

The Company realized a non-taxable gain on life insurance of \$0.4 million, or \$0.06 per share in the current quarter. The gain is included in interest and other income in the consolidated statements of income.

The effective income tax expense rate for the current three-month period was 37.0% compared to an income tax expense rate of 36.5% in the prior year three-month period. 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 three months ended September 30, 2014 of \$4.9 million or \$0.64 per share compared to \$3.8 million or \$0.51 per share for the prior year quarter. All earnings per share amounts are on a diluted basis.

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Liquidity and Capital Resources

Working capital (current assets less current liabilities) at September 30, 2014 was \$107 million compared to \$129 million at June 30, 2014. The Company purchased land and a building in Edgerton, Kansas for \$24 million, to be used as a distribution facility, utilizing cash of \$12 million and short-term borrowings of \$12 million. Accounts payable increased \$10 million primarily due to the timing of payments to suppliers. Inventory increased \$8 million to support anticipated increased sales volume in upholstered, case goods and ready-to-assemble product categories.

The Company's main source of liquidity is cash, cash flows from operations and short-term borrowings. As of September 30, 2014 and June 30, 2014, the Company had cash totaling \$10.3 million and \$22.2 million, respectively. The Company maintains a credit agreement which provides short-term working capital financing up to \$25.0 million with interest of LIBOR plus 1% (1.1565% at September 30, 2014), including up to \$4.0 million of letters of credit. Letters of credit outstanding at September 30, 2014 totaled \$2.9 million. The Company utilized \$8.0 million of borrowing availability under the credit facility during the period, which is classified as Notes Payable in the Consolidated Balance Sheets, in addition to the aforementioned letters of credit, leaving borrowing availability of \$14.1 million. The credit agreement expires June 30, 2016. At September 30, 2014, 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 \$8.0 million line of credit, with interest at prime minus 2% (1.25% at September 30, 2014), and where its routine banking transactions are processed. The Company utilized borrowing availability during the period and \$4.0 million was outstanding on the line of credit at September 30, 2014, which is classified as Notes Payable in the Consolidated Balance Sheets. The credit agreement expires February 13, 2015. In addition, the Supplemental Plan assets, held in a Rabbi Trust, of \$3.8 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.

Cash decreased by \$11.9 million during the first fiscal quarter of 2014 with net cash provided by operating activities of \$3.1 million, capital expenditures of \$25.8 million, proceeds from short-term borrowings of \$12.0 million and payment of dividends of \$1.1 million.

Net cash provided by operating activities of \$3.1 million in the first quarter ended September 30, 2014 was comprised primarily of net income of \$4.9 million, changes in operating assets and liabilities of \$3.3 million and non-cash charges of \$1.5 million.

Net cash used in investing activities was \$25.9 million and \$1.0 million in the quarters ended September 30, 2014 and 2013, respectively. Capital expenditures were \$25.8 million and \$0.7 million during the quarters ended September 30, 2014 and 2013, respectively.

Net cash provided by financing activities for the quarter ended September 30, 2014 was \$10.9 million primarily from proceeds from short-term borrowings of \$12.0 million partially offset by payment of dividends of \$1.1 million. Net cash used in financing activities was \$0.6 million in the quarter ended September 30, 2013 primarily for the payment of dividends of \$1.1 million.

The Company expects that capital expenditures for the remainder of fiscal year 2015 will include approximately \$8-\$10 million to complete interior construction and to equip the distribution facility and \$5.0 million for other operating capital expenditures. Management believes that the Company has adequate cash, cash flows from operations and credit arrangements to meet its operating and capital requirements for fiscal year 2015. 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, 2014, 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, 2014.

Outlook

Due to existing strong order backlog and positive order trends the Company expects top line growth will continue for fiscal year 2015. Residential growth is expected from existing customers and products, and through expanding our product portfolio and customer base. The Company believes this growth will be led by increased demand for upholstered and ready-to-assemble products. The Company anticipates sales of commercial products consistent with fiscal year 2014. The Company is confident in its ability to take advantage of market opportunities.

The Company has two multi-year initiatives in progress designed to enhance customer experience and increase shareholder value. In anticipation of future growth we are implementing a logistics strategy, and are assessing our business information system requirements. Consistent with the logistics strategy, the Company will be investing an additional \$8-\$10 million to complete interior construction and to equip the distribution facility. We are in the early stages of the business information system assessment. The timing and level of additional investment required for these initiatives will be evaluated as the projects progress. Other operating capital expenditures are estimated to be \$5.0 million for the remainder of fiscal 2015. The Company believes it has adequate working capital and borrowing capabilities.

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 quarter ended September 30, 2014 and 2013, the Company did not have sales, purchases, or other expenses denominated in foreign currencies. As such, the Company is not exposed to material market risk associated with currency exchange rates and prices.

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

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, 2014.

(b) *Changes in internal control over financial reporting.* During the quarter ended September 30, 2014, 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 has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

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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, including expenses relating to the Indiana civil 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, 2014.

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 17, 2014

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

