

FLEXSTEEL INDUSTRIES INC
Form 10-Q
October 22, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2010

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)

Edgar Filing: FLEXSTEEL INDUSTRIES INC - Form 10-Q

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

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

3400 JACKSON STREET

DUBUQUE, IOWA 52004-0877

(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

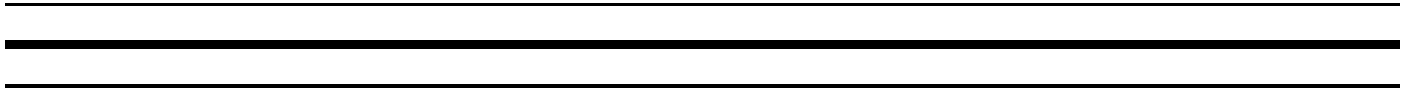
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No .

Common Stock - \$1.00 Par Value

Shares Outstanding as of September 30, 2010

6,688,835



PART I FINANCIAL INFORMATION

Item 1. Financial Statements

FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share data)

	September 30, 2010 (UNAUDITED)	June 30, 2010
ASSETS		
CURRENT ASSETS:		
Cash	\$ 4,257	\$ 8,278
Trade receivables less allowance for doubtful accounts: September 30, 2010, \$2,160; June 30, 2010, \$2,020	37,792	35,748
Inventories	78,391	72,637
Deferred income taxes	3,710	4,050
Other	1,450	1,076
Total current assets	125,600	121,789
NON-CURRENT ASSETS:		
Property, plant and equipment, net	21,186	21,614
Deferred income taxes	3,360	3,010
Other assets	11,339	11,257
TOTAL	\$ 161,485	\$ 157,670
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable trade	\$ 11,864	\$ 10,815
Accrued liabilities:		
Payroll and related items	5,614	7,023
Insurance	6,497	6,192
Other	8,461	6,959
Total current liabilities	32,436	30,989
LONG-TERM LIABILITIES:		
Deferred compensation	5,113	5,096
Other liabilities	4,068	3,973
Total liabilities	41,617	40,058

For the quarterly period ended September 30, 2010

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 6,688,835, shares;

Additional paid-in capital

Retained earnings

Accumulated other comprehensive loss

Total shareholders equity

TOTAL

6,689

5,672

109,134

(1,627)

119,868

\$ 161,485

6,646

5,425

107,293

(1,752)

117,612

\$ 157,670

See accompanying Notes to Consolidated Financial Statements (Unaudited).

FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(Amounts in thousands, except per share data)

	Three Months Ended September 30,	
	2010	2009
NET SALES	\$ 87,230	\$ 75,940
COST OF GOODS SOLD	(67,624)	(59,384)
GROSS MARGIN	19,606	16,556
SELLING, GENERAL AND ADMINISTRATIVE FACILITY CLOSING COSTS	(14,898)	(14,141)
OPERATING INCOME	3,692	2,415
OTHER INCOME :		
Interest and other income	101	32
Interest expense		(137)
Total	101	(105)
INCOME BEFORE INCOME TAXES	3,793	2,310
PROVISION FOR INCOME TAXES	(1,450)	(930)
NET INCOME	\$ 2,343	\$ 1,380
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:		
Basic	6,660	6,576
Diluted	6,839	6,615
EARNINGS PER SHARE OF COMMON STOCK:		
Basic	\$ 0.35	\$ 0.21
Diluted	\$ 0.34	\$ 0.21
DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.075	\$ 0.05

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,	
	2010	2009
OPERATING ACTIVITIES:		
Net income	\$ 2,343	\$ 1,380
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	722	806
Provision for losses on accounts receivable	240	490
Deferred income taxes	(86)	(596)
Stock-based compensation expense	135	
Gain on disposition of capital assets	15	(3)
Changes in operating assets and liabilities:		
Trade receivables	(2,285)	(2,107)
Inventories	(5,754)	1,755
Other current assets	(373)	2,185
Other assets	(8)	5
Accounts payable - trade	1,107	(1,369)
Accrued liabilities	228	457
Other long-term liabilities	95	150
Deferred compensation	16	(112)
Net cash (used in) provided by operating activities	(3,605)	3,041
INVESTING ACTIVITIES:		
Proceeds from sales of investments	201	197
Purchases of investments	(74)	(9)
Proceeds from sale of capital assets	18	3
Capital expenditures	(384)	(627)
Net cash used in investing activities	(239)	(436)
FINANCING ACTIVITIES:		
Repayment of short-term borrowings, net		(3,000)
Dividends paid	(332)	(329)
Proceeds from issuance of common stock	155	
Net cash used in financing activities	(177)	(3,329)
Decrease in cash	(4,021)	(724)
Cash at beginning of period	8,278	1,714
Cash at end of period	\$ 4,257	\$ 990

SUPPLEMENTAL CASH FLOW INFORMATION Cash paid during the period for:

For the quarterly period ended September 30, 2010

(Amounts in thousands)

	Three Months Ended September 30,	
	2010	2009
Interest	\$	\$ 135
Income taxes paid (refunded)	\$ 1,260	\$ (336)

See accompanying Notes to Consolidated Financial Statements (Unaudited).

FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE PERIOD ENDED SEPTEMBER 30, 2010

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, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2011. 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, 2010, appropriately represent, in all material respects, the current status of accounting policies and are incorporated by reference.

DESCRIPTION OF BUSINESS Flexsteel was incorporated in 1929 and is one of the oldest and largest manufacturers, importers and marketers of upholstered and wooden furniture products in the country. 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, hospitality, health care and motor vehicle applications. Featured as a basic 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 to furniture dealers, department stores, recreational vehicle manufacturers, catalogs, hospitality and healthcare facilities. The Company s products are also sold to several national and regional chains, some of which sell on a private label basis.

The Company has one active wholly-owned subsidiary, DMI Furniture, Inc. (DMI), which is a Louisville, Kentucky-based, manufacturer, importer and marketer of residential and commercial office furniture with manufacturing and warehouses in Indiana and manufacturing sources in Asia. DMI s divisions are WYNWOOD, Homestyles and DMI Commercial Office Furniture.

2. INVENTORIES

The Company values inventory at the lower of cost or market. Raw steel is valued on the last-in, first-out (LIFO) method. Other inventories are valued on the first-in, first-out (FIFO) method. Raw steel inventories valued on a LIFO basis would have been approximately \$1.7 million higher at each period ended September 30, 2010 and June 30, 2010, if they had been valued on the FIFO method. At September 30, 2010 and June 30, 2010 the total value of LIFO inventory was \$2.4 million and \$2.3 million, respectively. A comparison of inventories is as follows (in thousands):

	September 30, 2010	June 30, 2010
Raw materials	\$ 9,164	\$ 9,696
Work in process and finished parts	5,073	4,943
Finished goods	64,154	57,998
Total	\$ 78,391	\$ 72,637

3. BORROWINGS AND CREDIT ARRANGEMENTS

The Company maintains a credit agreement which provides short-term working capital financing up to \$15.0 million with interest of LIBOR plus 1% including \$10.0 million of letters of credit availability. No amounts were outstanding at September 30, 2010 and June 30, 2010 under the working capital facility. The Company is contingently liable to insurance carriers under its comprehensive general, product, and vehicle liability policies, as well as some workers compensation, and has provided letters of credit in the amount of \$2.6 million. The credit agreement contains financial covenants. The primary covenant is an interest coverage ratio of 3.0 to 1.0. The ratio is computed as net income plus interest expense and stock-based compensation expense less dividends divided by interest expense. In addition, the Company must maintain working capital of \$60 million. At September 30, 2010, 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 unsecured \$5.0 million line of credit at prime minus 1%, cumulative letter of credit facilities and where its routine daily banking transactions are processed. No amount was outstanding on the line of credit at September 30, 2010 and June 30, 2010. The Company is contingently liable to insurance carriers under its comprehensive general, product, and vehicle liability policies, as well as some workers' compensation, and has provided letters of credit in the amount of \$0.7 million. In addition, the Rabbi Trust assets 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.

4. STOCK-BASED COMPENSATION

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

(1) Long-Term Management Incentive Compensation Plan The plan provides for shares of common stock and cash to be awarded to officers and key employees based on performance targets set by the Nominating and Compensation Committee of the Board of Directors (the Committee). The Company's shareholders approved 500,000 shares to be issued under the plan. No shares have been issued as of September 30, 2010. The Committee selected consolidated operating results for organic net sales growth and fully-diluted earnings per share for the three-year performance periods beginning July 1, 2008 and ending on June 30, 2011, beginning July 1, 2009 and ending on June 30, 2012, and beginning July 1, 2010 and ending on June 30, 2013. The Committee has also specified that payouts, if any, for awards earned in these performance periods will be 60% stock and 40% cash. Awards will be paid to participants as soon as practicable following the end of the performance periods 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 compensation cost related to the cash portion of the award is re-measured based on the award's estimated fair value at the end of each reporting period. The accrual is based on the probable outcomes of the performance conditions. The portion of the accrued award payable in stock is classified within equity and the portion of the accrued award payable in cash is classified within payroll and related accruals and other long-term liabilities. At September 30, 2010 and June 30, 2010, the Company accrued \$0.3 million and \$0, respectively, in payroll and related accruals for the short-term portion of estimated awards of stock and cash under the long-term incentive plan. At September 30, 2010 and June 30, 2010, the Company accrued \$1.0 million and \$0.9 million, respectively, in other long-term liabilities for estimated awards of stock and cash under the long-term incentive plan.

If the target performance goals would be achieved, the total amount of compensation cost recognized over the requisite service periods would be \$1.0 million (2009-2011), \$1.1 million (2010-2012) and \$0.9 million (2011-2013) based on the estimated fair values at September 30, 2010.

(2) Stock Option Plans The stock option plans for key employees and directors provide for the granting of incentive and nonqualified stock options. Under the plans, options are granted at an exercise price equal to the fair

market value of the underlying common stock at the date of grant, and may be exercisable for up to 10 years. All options are exercisable when granted.

At September 30, 2010, 508,950 shares were available for future grants. 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.

A summary of the status of the Company's stock option plans as of September 30, 2010, June 30, 2010 and 2009 and the changes during the years then ended is presented below:

	Shares (in thousands)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Outstanding and exercisable at June 30, 2009	1,020	\$ 12.94	\$ 407
Granted	165	8.43	
Exercised	(99)	7.52	
Canceled	(34)	13.40	
Outstanding and exercisable at June 30, 2010	1,052	12.70	1,168