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gaap:RestrictedStockUnitsRSUMembersrt:MinimumMember2024-07-012024-12-31xbrli:pureiso4217:USDxbrli:sharesxbrli:sharesiso4217:USD Â UNITED STATES SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D. C. 20549 ____________________________________ FORM 10-Q ____________________________________ ïƒ¾ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended December 31, 2024 or ï‚¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from to Â Commission file number 0-5151 ____________________________________ FLEXSTEEL INDUSTRIES, INC. (Exact Name of Registrant as Specified in Its Charter) Â Â Â Incorporated in the State of Minnesota 42-0442319 (State or other Jurisdiction of (I.R.S. Identification No.) Incorporation or Organization) Â 385 BELL STREET DUBUQUE, IA 52001-7004 (Address of Principal Executive Offices) (Zip Code) Â (563) 556-7730 (Registrantâ€™s Telephone Number, Including Area Code) ____________________________________ Securities registered pursuant to Section 12(b) of the Act: Â Â Â Title of each class Trading Symbol(s) Name of each exchange on which registered Common Stock FLXS The Nasdaq Stock Market, LLC Â Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such a shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ïƒ¾ No ï‚¨ Â Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Â§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 ïƒ¾ No ï‚¨ Â Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of â€œlarge accelerated filer,â€ â€œaccelerated filer,â€ â€œsmaller reporting company,â€ and â€œemerging growth companyâ€ in Rule 12b-2 of the Exchange Act (check one). Large Accelerated Filer ï‚¨ Accelerated Filer ïƒ¾ Non-Accelerated Filer ï‚¨ Smaller Reporting Company ïƒ¾ Emerging Growth Company ï‚¨ Â If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ï‚¨ Â Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ï‚¨ No ïƒ¾ Â Common Stock - $1.00 Par Value Â Shares Outstanding as of February 5, 2025 5,269,367 Â Â FLEXSTEEL INDUSTRIES, INC. QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED December 31, 2024 Â Â Â Page Part I â€“ Financial Information Item 1. Financial Statements 3 Â Consolidated Balance Sheets as of December 31, 2024, and June 30, 2024 (Unaudited) 3 Â Consolidated Statements of Income and Comprehensive Income for three and six months ended December 31, 2024, and December 31, 2023 (Unaudited) 4 Â Consolidated Statements of Changes in Shareholdersâ€™ Equity for the three and six months ended December 31, 2024, and December 31, 2023 (Unaudited) 5 Â Consolidated Statements of Cash Flows for the six months ended December 31, 2024, and December 31, 2023 (Unaudited) 6 Â Notes to Consolidated Financial Statements (Unaudited) 7 Item 2. Managementâ€™s Discussion and Analysis of Financial Condition and Results of Operations 13 Item 3. Quantitative and Qualitative Disclosures About Market Risk 16 Item 4. Controls and Procedures 16 Part II â€“ Other Information Item 1A. Risk Factors 17 Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 17 Item 5. Other Information 18 Item 6. Exhibits 18 Signatures Â 19 Â Â 2 Â PART I FINANCIAL INFORMATION Item 1. Financial Statements Â FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (UNAUDITED) (Amounts in thousands) Â Â Â December 31, Â Â June 30, Â Â Â 2024 Â Â 2024 Â ASSETS Â Â Â Â Â Â CURRENT ASSETS: Â Â Â Â Â Â Cash and cash equivalents Â $ 11,789 Â Â $ 4,761 Â Trade receivables - less allowances: December 31, 2024, $2,436, June 30, 2024, $2,440 Â Â 36,310 Â Â Â 44,238 Â Inventories Â Â 91,042 Â Â Â 96,577 Â Other Â Â 9,910 Â Â Â 8,098 Â Assets held for sale Â Â â€” Â Â Â 1,707 Â Total current assets Â Â 149,051 Â Â Â 155,381 Â NONCURRENT ASSETS: Â Â Â Â Â Â Property, plant and equipment, net Â Â 36,414 Â Â Â 36,709 Â Operating lease right-of-use assets Â Â 61,587 Â Â Â 61,439 Â Deferred income taxes Â Â 8,606 Â Â Â 8,607 Â Other assets Â Â 15,889 Â Â Â 12,326 Â TOTAL ASSETS Â $ 271,547 Â Â $ 274,462 Â Â Â Â Â Â LIABILITIES AND SHAREHOLDERS' EQUITY Â Â Â Â Â Â CURRENT LIABILITIES: Â Â Â Â Â Â Accounts payable - trade Â $ 20,712 Â Â $ 25,830 Â Current portion of operating lease liabilities Â Â 8,035 Â Â Â 7,517 Â Accrued liabilities: Â Â Â Â Â Â Payroll and related items Â Â 7,482 Â Â Â 12,059 Â Insurance Â Â 1,953 Â Â Â 1,900 Â Sales and advertising related items Â Â 6,650 Â Â Â 6,073 Â Other Â Â 6,036 Â Â Â 7,027 Â Total current liabilities Â Â 50,868 Â Â Â 60,406 Â LONG-TERM LIABILITIES: Â Â Â Â Â Â Operating lease liabilities, less current maturities Â Â 57,774 Â Â Â 58,076 Â Line of credit Â Â â€” Â Â Â 4,822 Â Other liabilities Â Â 985 Â Â Â 791 Â Total liabilities Â Â 109,627 Â Â Â 124,095 Â Â Â Â Â Â Â SHAREHOLDERS' EQUITY: Â Â Â Â Â Â Common stock - $1Â par value; authorized 15,000Â shares; 8,477Â shares issued and 5,270Â outstanding as of December 31, 2024; 8,407Â shares issued and5,200Â outstanding as of June 30, 2024 Â Â 8,477 Â Â Â 8,407 Â Additional paid-in capital Â Â 39,694 Â Â Â 39,573 Â Treasury stock, at cost; 3,207Â shares as of December 31, 2024, and June 30, 2024 Â Â (71,731) Â Â (71,731) Retained earnings Â Â 185,480 Â Â Â 174,118 Â Total shareholders' equity Â Â 161,920 Â Â Â 150,367 Â TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY Â $ 271,547 Â Â $ 274,462 Â Â See accompanying Notes to Consolidated Financial Statements (Unaudited). Â 3 Â FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED) (Amounts in thousands, except per share data) Â Â Â Three Months Ended Â Â Six Months Ended Â Â Â December 31, Â Â December 31, Â Â Â 2024 Â Â 2023 Â Â 2024 Â Â 2023 Â Net sales Â $ 108,483 Â Â $ 100,108 Â Â $ 212,490 Â Â $ 194,711 Â Cost of goods sold Â Â 85,678 Â Â Â 78,158 Â Â Â 167,318 Â Â Â 154,351 Â Gross profit Â Â 22,805 Â Â Â 21,950 Â Â Â 45,172 Â Â Â 40,360 Â Selling, general and administrative expenses Â Â 16,142 Â Â Â 17,366 Â Â Â 32,462 Â Â Â 33,858 Â (Gain) on disposal of assets

held for sale Â Â (4,991) Â Â â€” Â Â Â (4,991) Â Â â€” Â Operating income Â Â 11,654 Â Â Â 4,584 Â Â Â 17,701 Â Â Â 6,502 Â Interest expense Â Â 19 Â Â Â 489 Â Â Â 70 Â Â Â 1,059 Â Interest (income) Â Â (31) Â Â â€” Â Â Â (31) Â Â â€” Â Income before income taxes Â Â 11,666 Â Â Â 4,095 Â Â Â 17,662 Â Â Â 5,443 Â Income tax provision Â Â 2,612 Â Â Â 1,044 Â Â Â 4,468 Â Â Â 1,640 Â Net income and comprehensive income Â $ 9,054 Â Â $ 3,051 Â Â $ 13,194 Â Â $ 3,803 Â Weighted average number of common shares outstanding: Â Â Â Â Â Â Â Â Â Â Â Â Basic Â Â 5,247 Â Â Â 5,184 Â Â Â 5,225 Â Â Â 5,183 Â Diluted Â Â 5,582 Â Â Â 5,324 Â Â Â 5,554 Â Â Â 5,360 Â Earnings per share of common stock: Â Â Â Â Â Â Â Â Â Â Â Â Basic Â $ 1.73 Â Â $ 0.59 Â Â $ 2.53 Â Â $ 0.73 Â Diluted Â $ 1.62 Â Â $ 0.57 Â Â $ 2.38 Â Â $ 0.71 Â Â Â Â See accompanying Notes to Consolidated Financial Statements (Unaudited). Â 4 Â FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERSâ€™ EQUITY (UNAUDITED) (Amounts in thousands) Â Â Â Six Months Ended December 31, 2024 Â Â Â Total Par Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Value of Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Common Â Â Additional Â Â Â Â Â Â Â Â Â Â Â Â Shares Â Â Paid-In Â Â Treasury Â Â Retained Â Â Â Â Â Â ($1Â Par) Â Â Capital Â Â Stock Â Â Earnings Â Â Total Â Balance on June 30, 2024 Â $ 8,407 Â Â $ 39,573 Â Â $ (71,731) Â $ 174,118 Â Â $ 150,367 Â Stock-based compensation Â Â 3 Â Â Â 1,135 Â Â Â â€” Â Â Â â€” Â Â Â 1,138 Â Stock options exercised, net Â Â 4 Â Â Â (36) Â Â â€” Â Â Â â€” Â Â Â (32) Cash dividends declared Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â (910) Â Â (910) Net income Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â 4,140 Â Â Â 4,140 Â Balance on September 30, 2024 Â $ 8,414 Â Â $ 40,672 Â Â $ (71,731) Â $ 177,348 Â Â $ 154,703 Â Stock-based compensation Â Â 2 Â Â Â 961 Â Â Â â€” Â Â Â â€” Â Â Â 963 Â Vesting of restricted stock units and restricted shares Â Â 1 Â Â Â (14) Â Â â€” Â Â Â â€” Â Â Â (13) Stock options exercised, net Â Â 60 Â Â Â (1,925) Â Â â€” Â Â Â â€” Â Â Â (1,865) Cash dividends declared Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â (922) Â Â (922) Net income Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â 9,054 Â Â Â 9,054 Â Balance on December 31, 2024 Â $ 8,477 Â Â $ 39,694 Â Â $ (71,731) Â $ 185,480 Â Â $ 161,920 Â Â Â Â Six Months Ended December 31, 2023 Â Â Â Total Par Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Value of Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Common Â Â Additional Â Â Â Â Â Â Â Â Â Â Â Â Shares Â Â Paid-In Â Â Treasury Â Â Retained Â Â Â Â Â Â ($1Â Par) Â Â Capital Â Â Stock Â Â Earnings Â Â Total Â Balance on June 30, 2023 Â $ 8,292 Â Â $ 36,605 Â Â $ (70,072) Â $ 166,796 Â Â $ 141,621 Â Stock-based compensation Â Â 8 Â Â Â 903 Â Â Â â€” Â Â Â â€” Â Â Â 911 Â Vesting of restricted stock units and restricted shares Â Â 44 Â Â Â (691) Â Â â€” Â Â Â â€” Â Â Â (647) Treasury stock purchases Â Â â€” Â Â Â â€” Â Â Â (455) Â Â â€” Â Â Â (455) Cash dividends declared Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â (815) Â Â (815) Net income Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â 752 Â Â Â 752 Â Balance on September 30, 2023 Â $ 8,344 Â Â $ 36,817 Â Â $ (70,527) Â $ 166,733 Â Â $ 141,367 Â Stock-based compensation Â Â 9 Â Â Â 925 Â Â Â â€” Â Â Â â€” Â Â Â 934 Â Vesting of restricted stock units and restricted shares Â Â 4 Â Â Â (45) Â Â â€” Â Â Â â€” Â Â Â (41) Treasury stock purchases Â Â â€” Â Â Â â€” Â Â Â (972) Â Â â€” Â Â Â (972) Cash dividends declared Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â (806) Â Â (806) Net income Â Â â€” Â Â Â â€” Â Â Â â€” Â Â Â 3,051 Â Â Â 3,051 Â Balance on December 31, 2023 Â $ 8,357 Â Â $ 37,697 Â Â $ (71,499) Â $ 168,978 Â Â $ 143,533 Â Â See accompanying Notes to Consolidated Financial Statements (Unaudited). Â 5 Â FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (Amounts in thousands) Â Â Â Six Months Ended Â Â Â December 31, Â Â Â 2024 Â Â 2023 Â OPERATING ACTIVITIES: Â Â Â Â Â Â Net income Â $ 13,194 Â Â $ 3,803 Â Adjustments to reconcile net income to net cash provided by (used in) operating activities: Â Â Â Â Â Â Depreciation Â Â 1,853 Â Â Â 1,899 Â Deferred income taxes Â Â 1 Â Â Â 84 Â Stock-based compensation expense Â Â 2,101 Â Â Â 1,845 Â Change in provision for losses on accounts receivable Â Â 4 Â Â Â (140) (Gain)/loss on disposition of property, plant and equipment Â Â (4,987) Â Â 34 Â Changes in operating assets and liabilities: Â Â Â Â Â Â Trade receivables Â Â 7,924 Â Â Â 6,907 Â Inventories Â Â 5,535 Â Â Â 16,838 Â Other current assets Â Â (2,869) Â Â (2,128) Other assets Â Â (3,563) Â Â (5,297) Accounts payable - trade Â Â (5,353) Â Â (4,991) Accrued liabilities Â Â (4,940) Â Â (1,751) Other long-term liabilities Â Â 191 Â Â Â 63 Â Net cash provided by operating activities Â Â 9,091 Â Â Â 17,166 Â INVESTING ACTIVITIES: Â Â Â Â Â Â Proceeds from sales of investments Â Â 1,155 Â Â Â â€” Â Proceeds from sales of property, plant and equipment Â Â 6,704 Â Â Â â€” Â Capital expenditures Â Â (1,334) Â Â (3,058) Net cash provided by (used in) investing activities Â Â 6,525 Â Â Â (3,058) FINANCING ACTIVITIES: Â Â Â Â Â Â Dividends paid Â Â (1,760) Â Â (1,671) Treasury stock purchases Â Â â€” Â Â Â (1,427) Proceeds from line of credit Â Â 202,344 Â Â Â 180,524 Â Payments on line of credit Â Â (207,262) Â Â (190,899) Proceeds from issuance of common stock Â Â 141 Â Â Â â€” Â Shares withheld for tax payments on vested shares and options exercised Â Â (2,051) Â Â (688) Net cash (used in) financing activities Â Â (8,588) Â Â (14,161) Increase (decrease) in cash and cash equivalents Â Â 7,028 Â Â Â (53) Cash and cash equivalents at beginning of the period Â Â 4,761 Â Â Â 3,365 Â Cash and cash equivalents at end of the period Â $ 11,789 Â Â $ 3,312 Â Â Â Â Â Â Â Â SUPPLEMENTAL INFORMATION Â Â Â Â Â Â Interest paid Â Â 106 Â Â Â 1,104 Â Interest received Â Â 31 Â Â Â â€” Â Cash paid for income taxes, net Â Â 6,053 Â Â Â 1,724 Â Capital expenditures in accounts payable Â Â 258 Â Â Â 382 Â Â See accompanying Notes to Consolidated Financial Statements (Unaudited). Â 6 Â FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE PERIOD ENDED December 31, 2024 1. BASIS OF PRESENTATION AND DESCRIPTION OF BUSINESSDESCRIPTION OF BUSINESS â€“ Flexsteel Industries, Inc. and Subsidiaries (the â€œCompanyâ€ or â€œFlexsteelâ€ or â€œOurâ€) is one of the largest manufacturers, importers, and marketers of furniture products in the United States. Product offerings include a wide variety of furniture such as sofas, loveseats, chairs, reclining rocking chairs, swivel rockers, sofa beds, convertible bedding units, occasional tables, desks, dining tables and chairs, kitchen storage, bedroom furniture, and outdoor furniture. A featured component in most of the upholstered furniture is a unique steel drop-in seat spring from which the name â€œFlexsteelâ€ is derived. The Company distributes its products throughout the United States through its e-commerce channel and direct sales force.BASIS OF PRESENTATION â€“ The unaudited Consolidated Financial Statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (â€œSECâ€). The information contained in the Consolidated Financial Statements includes normal recurring adjustments and reflects all adjustments, which are, in the opinion of management, necessary for a fair presentation of such Consolidated Financial Statements. Operating results for the three and six months ended December 31, 2024, are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2025. Certain information and footnote disclosures normally included in the Consolidated Financial Statements prepared in accordance with generally accepted accounting principles (â€œGAAPâ€) in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. Except to the extent updated or described below, the significant accounting policies in Note 1 to the Consolidated Financial Statements in the Companyâ€™s Annual Report on Form 10-K for the year ended June 30, 2024, appropriately represent, in all material respects, the current status of accounting policies. 2. INVENTORIESA comparison of inventories is as follows: Â Â December 31, Â Â June 30, Â (in thousands) Â 2024 Â Â 2024 Â Raw materials Â $ 12,584 Â Â $ 14,030 Â Work in process and finished parts Â Â 2,840 Â Â Â 2,654 Â Finished goods Â Â 75,618 Â Â Â 79,893 Â Total Â $ 91,042 Â Â $ 96,577 Â Â 3. ASSETS HELD FOR SALEThe Company completed the sale of its Dublin, Georgia facility as part of a restructuring plan in the quarter ended December 31, 2024. The company received proceeds of $6.7 million and recorded a pre-tax gain of $5.0 million related to the sale. Â 4. LEASESThe Company accounts for its leases in accordance with ASC 842, Leases. ASC 842 requires lessees to (i) recognize a right-of-use asset (â€œROU assetâ€) and a lease liability that is measured at the present value of the remaining lease payments on the Consolidated Balance Sheets, (ii) recognize a single lease cost, calculated over the lease term on a straight-line basis and (iii) classify lease-related cash payments within operating and financing activities. The Company made an accounting policy election to not recognize short-term leases on the Consolidated Balance Sheets and all non-lease components, such as common area maintenance, were excluded. At any given time during the lease term, the lease liability represents the present value of the remaining lease payments, and the ROU asset is measured as the amount of the lease liability, adjusted for pre-paid rent, unamortized initial direct costs, and the remaining balance of lease incentives received. Both the lease ROU asset and lease liability are reduced to zero at the end of the lease term.The Company leases distribution centers and warehouses, manufacturing facilities, showrooms, and office space. At the lease inception date, the Company determines if an arrangement is, or contains a lease. Some of the Companyâ€™s leases include options to renew at similar terms. The Company assesses these options to determine if the Company is reasonably certain of exercising these options based on relevant economic and financial factors. Options that meet these criteria are included in the lease term at the lease commencement date. Â 7 Â For purposes of measuring the Companyâ€™s ROU asset and lease liability, the discount rate utilized by the Company was based on the average interest rates effective for the Companyâ€™s line of credit. Some of the Companyâ€™s leases contain variable rent payments, including common area maintenance and utilities. Due to the variable nature of these costs, they are not included in the measurement of the ROU asset and lease liability.The components of the Companyâ€™s leases excluding the impact of sublease income reflected on the Companyâ€™s Consolidated Statements of Income were as follows:Â Â Â Three Months Ended Â Â Six Months Ended Â Â Â December 31, Â Â December 31, Â (in thousands) Â 2024 Â Â 2023 Â Â 2024 Â Â 2023 Â Operating lease expense Â $ 2,509 Â Â $ 2,384 Â Â $ 4,987 Â Â $ 4,808 Â Variable lease expense Â Â 393 Â Â Â 524 Â Â Â 912 Â Â Â 970 Â Total lease expense Â $ 2,902 Â Â $ 2,908 Â Â $ 5,899 Â Â $ 5,778 Â Other information related to leases and future minimum lease payments under non-cancelable operating leases were as follows:Â Â Â Six Months Ended Â Â Â December 31, Â (in thousands) Â 2024 Â Â 2023 Â Cash paid for amounts included in the measurement of lease liabilities: Â Â Â Â Â Â Operating cash flows paid for operating leases Â $ 4,918 Â Â $ 4,663 Â Â Â Â Â Â Â Cash received from subleasing of operating lease: Â Â Â Â Â Â Operating cash flows received from subleasing of operating lease Â $ 594 Â Â $ 1,119 Â Â Â Â Â Â Â Â Right-of-use assets obtained in exchange for lease liabilities: Â Â Â Â Â Â Operating leases Â $ 4,119 Â Â $ 797 Â Â Â Â Â Â Â Weighted-average remaining lease term (in years): Â Â Â Â Â Â Operating leases Â Â 7.6 Â Â Â 8.6 Â Â Â Â Â Â Â Weighted-average discount rate: Â Â Â Â Â Â Operating leases Â Â 3.3 % Â Â 3.1 % Future minimum lease payments under non-cancelable operating leases were as follows:Â Â Â December 31, 2024 Â Remaining payments in FY2025 Â $ 4,999 Â FY2026 Â Â 10,145 Â FY2027 Â Â 10,315 Â FY2028 Â Â 10,081 Â FY2029 Â Â 9,001 Â Thereafter Â Â 29,601 Â Total future minimum lease payments Â $ 74,142 Â Less imputed interest Â Â 8,333 Â Lease liability Â $ 65,809 Â Â 5. CREDIT ARRANGEMENTSOn September 8, 2021, the Company, as the borrower, entered into a credit agreement (the â€œCredit Agreementâ€) with Wells Fargo Bank, National Association (the â€œLenderâ€), and the other lenders party thereto. The Credit Agreement has a five-year term and provides for up to an $85 million revolving line of credit. Subject to certain conditions, the Credit Agreement also provides for the issuance of letters of credit in an aggregate amount up to $5 million which, upon issuance, would be deemed advances under the revolving line of credit. Proceeds of borrowings were used to refinance all indebtedness owed to a prior lender and for working capital purposes. The Companyâ€™s obligations under the Credit Agreement are secured by substantially all its assets, excluding real property. The Credit Agreement contains customary representations, warranties, and covenants, including a financial covenant to maintain a fixed coverage ratio of not Â 8 Â less than 1.00 to 1.00. In addition, the Loan Agreement places restrictions on the Companyâ€™s ability to incur additional indebtedness, to create liens or other encumbrances, to sell or otherwise dispose of assets, and to merge or consolidate with other entities. As of December 31, 2024, management believes the Company was in compliance with all covenants.On April 18, 2022, the Company, as the borrower, entered into a first amendment to the Credit Agreement (â€œFirst Amendment to the Credit Agreementâ€), with the Lender and the lenders thereto. The amendment to the Credit Agreement changed the definition of the term â€˜Payment Conditionsâ€™ and further defined default or event of default and the calculation of the Fixed Charge Coverage Ratio.Subject to certain conditions, borrowings under the Credit Agreement initially bore interest at LIBOR plus 1.25% or 1.50% per annum. On May 24, 2023, the Company entered into a second amendment to the Credit Agreement ("Second Amendment to the Credit Agreement") with the Lender to transition the applicable interest rate from LIBOR to Secured Overnight Financing Rate ("SOFR"). Effective as of the date of the Second Amendment to the Credit Agreement, borrowings under the amended Credit Agreement bear interest at SOFR plus 1.36% to 1.61%, or an effective interest rate of 5.82%, on December 31, 2024.As of December 31, 2024, there were no outstanding borrowings under the Credit Agreement, exclusive of fees and letters of credit.Letters of credit outstanding with the Lender as of December 31, 2024, totaled $0.9 million. Â 6. INCOME TAXESThe provision for income taxes for the interim periods is based on an estimate of the Companyâ€™s annual effective tax rate adjusted to reflect the impact of discrete items. Management judgment is required in projecting ordinary income to estimate the Companyâ€™s annual effective tax rate. The Companyâ€™s effective tax rate for the three months ended December 31, 2024, and December 31, 2023, was 22.4% and 25.5%, respectively. The Company's effective tax rate for the six months ended December 31, 2024 and 2023, was 25.3% and 30.1%, respectively. For the three and six months ended December 31, 2024, the effective tax rate differs from the statutory tax rate of 21% primarily due to state taxes and the impact of foreign operations. For the three and six months ended December 31, 2023, the effective tax rate differs from the statutory tax rate of 21% due to nondeductible stock compensation, state taxes, and the impact of foreign operations. 7. STOCK-BASED COMPENSATIONThe Company accounts for its stock-based compensation plans in accordance with ASC 718, Stock Compensation, which requires the Company to measure all share-based payments at grant date fair value and recognize the cost over the requisite service period. Restricted shares and restricted stock units (â€œRSUsâ€) generally vest over 1 to 3 years. Stock options are granted at an exercise price equal to the fair value of the Companyâ€™s common stock price at the grant date and are exercisable for up to 10 years from the date of grant. Stock-based compensation is included in selling, general and administrative expenses on the Consolidated Statements of Income and Comprehensive Income. Forfeitures are recognized as incurred. The following table is a summary of total stock-based compensation expenses for the three and six months ended December 31, 2024 and 2023.Â Â Â Three Months Ended Â Â Six Months Ended Â Â Â December 31, Â Â December 31, Â (in thousands) Â 2024 Â Â Â 2023 Â Â 2024 Â Â 2023 Â Total stock-based compensation expense Â $ 963 Â Â Â $ 934 Â Â $ 2,101 Â Â $ 1,845 Â On December 14, 2022, the Companyâ€™s shareholders approved the Flexsteel Industries, Inc. 2022 Equity Incentive Plan (â€œ2022 Planâ€). The 2022 Plan replaced the Long-Term Incentive Compensation Plan (â€œLTIPâ€) and the 2013 Omnibus Stock Plan (collectively, the â€œPrior Plansâ€). No further awards will be made under either of the Prior Plans, but these Prior Plans will continue to govern awards previously granted under them. (1)2022 Equity Incentive PlanThe 2022 Plan is a long-term incentive plan pursuant to which awards may be granted to certain employees, independent contractors and directors of the Company, in the form of stock options, stock appreciation rights, restricted stock, restricted stock units, performance units, performance shares or other stock-based awards. For periods beginning on or after July 1, 2023, restricted stock units ("RSUs") and performance stock units ("PSUs") granted to officers and key employees as part of long-term compensation programs are issued from the 2022 Plan. RSUs and PSUs awarded from the 2022 Plan are included in the Long-Term Incentive Compensation or Restricted Share and RSUs tables below. Â 9 Â (2)Long-Term Incentive Compensation PlanThe LTIP provided for PSUs to be awarded to officers and key employees based on performance goals set by the Compensation Committee of the Board of Directors (the â€œCommitteeâ€). In conjunction with each grant of PSUs, the Committee granted RSUs under the 2013 Omnibus Stock Plan that vested at the end of three years. No further awards will be issued under this plan. (3)2013 Omnibus Stock PlanThe 2013 Omnibus Stock Plan was for key employees, officers and directors and provided for the granting of incentive and nonqualified stock options, restricted stock, restricted stock units, stock appreciation rights, and performance units. No further awards will be issued under this plan.Long-Term Incentive CompensationThe table below sets forth, as of December 31, 2024, the number of unvested PSUs granted at the target performance level for the 2023-2025, 2024-2026, and 2025-2027 performance periods under the 2022 Plan and LTIP (as applicable) and the number of unvested RSUs granted in conjunction with the PSUs. For PSUs awarded for the three year performance periods ending June 30, 2025, 2026 and 2027, achievement is based on meeting performance goals set for each year within the three year period. The Committee selected Adjusted Operating Income as the performance metric for the performance periods ending June 30, 2025, 2026, and 2027.Â Â Â Time-Based Vest (RSUs) Â Â Performance-Based Vest (PSUs) Â Â Total Â Â Â Â Â Â Weighted Average Â Â Â Â Â Weighted Average Â Â Â Â Â Weighted Average Â Â Â Â Â Â Fair Value Â Â Â Â Â Fair Value Â Â Â Â Â Fair Value Â (shares in thousands) Â Shares Â Â Per Share Â Â Shares Â Â Per Share Â Â Shares Â Â Per Share Â Unvested as of June 30, 2024 Â Â 97 Â Â $ 17.92 Â Â Â 182 Â Â $ 22.07 Â Â Â 279 Â Â $ 20.65 Â Granted Â Â 31 Â Â Â 31.66 Â Â Â 46 Â Â Â 31.66 Â Â Â 77 Â Â Â 31.66 Â Vested Â Â â€" Â Â Â â€" Â Â Â â€" Â Â Â â€" Â Â Â â€" Â Â Â â€" Â Forfeited Â Â â€" Â Â Â â€" Â Â Â (37) Â Â 39.07 Â Â Â (37) Â Â 39.07 Â Unvested as of December 31, 2024 Â Â 128 Â Â $ 21.25 Â Â Â 191 Â Â $ 21.09 Â Â Â 319 Â Â $ 21.17 Â Total unrecognized stock-based compensation related to the unvested PSUs at the target performance level and the related unvested RSUs was $3.2 million as of December 31, 2024, which is expected to be recognized over a weighted-average period of 1.4 years.Restricted Shares and RSUsA summary of the activity in the Companyâ€™s unvested restricted shares and unvested RSUs (not granted in conjunction with PSUs) as of December 31, 2024, is as follows:Â Â Â Â Â Â Weighted Average Â Â Â Shares Â Â Fair Value Â Â Â (in thousands) Â Â Per Share Â Unvested as of June 30, 2024 Â Â 16 Â Â $ 21.96 Â Granted Â Â 4 Â Â Â 31.66 Â Vested Â Â (1) Â Â 20.08 Â Forfeited Â Â â€" Â Â Â 20.33 Â Unvested as of December 31, 2024 Â Â 19 Â Â $ 24.10 Â Total unrecognized stock-based compensation related to unvested restricted shares and unvested RSUs (not granted in conjunction with the PSUs) was $0.3 million as of December 31, 2024, which is expected to be recognized over a weighted-average period of 1.5 years. Â 10 Â OptionsA summary of the activity of the Companyâ€™s stock option plans as of December 31, 2024, is presented below:Â Â Â Â Â Â Weighted Â Â Â Shares Â Â Average Â Â Â (in thousands) Â Â Exercise Price Â Outstanding at June 30, 2024 Â Â 180 Â Â $ 20.01 Â Exercised Â Â (101) Â Â 19.26 Â Cancelled Â Â (12) Â Â 34.51 Â Outstanding at December 31, 2024 Â Â 67 Â Â $ 18.54 Â The following table summarizes information for options outstanding at December 31, 2024:Â Â Â Â Options Â Â Weighted Average Â Range of Â Outstanding Â Â Remaining Â Â Exercise Â Prices Â (in thousands) Â Â Life (Years) Â Â Price Â $ 9.97Â - 15.14 Â Â 43 Â Â Â 5.3 Â Â $ 10.62 Â 18.30Â - 19.72 Â Â 6 Â Â Â 6.4 Â Â Â 18.30 Â 21.96Â - 27.57 Â Â 3 Â Â Â 4.0 Â Â Â 24.49 Â 31.06Â - 32.80 Â Â 6 Â Â Â 3.7 Â Â Â 32.40 Â 43.09Â - 47.45 Â Â 9 Â Â Â 1.7 Â Â Â 45.29 Â $ 9.97Â - 47.45 Â Â 67 Â Â Â 4.8 Â Â $ 18.54 Â There is no unrecognized stock-based compensation expense related to these options as of December 31, 2024. Stock-based compensation granted outside a planDuring the quarter ended June 30, 2020, the Company awarded its former Chief Financial Officer/Chief Operating Officer (current Chief Executive Officer) 79,000 options outside of any Company stock plans. All 79,000 options remain outstanding as of December 31, 2024, with an exercise price of $9.97 and a remaining life of 5.3 years. There is no remaining unrecognized stock-based compensation expense related to these options. 8. EARNINGS PER SHAREBasic 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 Companyâ€™s potential common shares outstanding are stock options, shares associated with the long-term incentive compensation plans, and non-vested restricted stock units. The Company calculates the dilutive effect of outstanding options and restricted stock units using the treasury stock method. Anti-dilutive options are not included in the computation of diluted EPS when their exercise price is greater than the average closing market price of the common shares. Â Â Â Three Months Ended Â Â Six Months Ended Â Â Â December 31, Â Â December 31, Â (in thousands) Â 2024 Â Â 2023 Â Â 2024 Â Â 2023 Â Basic shares Â Â 5,247 Â Â Â 5,184 Â Â Â 5,225 Â Â Â 5,183 Â Potential common shares: Â Â Â Â Â Â Â Â Â Â Â Â Stock options Â Â 111 Â Â Â 66 Â Â Â 105 Â Â Â 74 Â Non-vested restricted stock units and restricted shares Â Â 224 Â Â Â 74 Â Â Â 224 Â Â Â 103 Â Diluted shares Â Â 5,582 Â Â Â 5,324 Â Â Â 5,554 Â Â Â 5,360 Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â Anti-dilutive shares Â Â â€" Â Â Â 136 Â Â Â â€" Â Â Â 136 Â Cash dividends declared per common share were $0.17 for the three and six months ended December 31, 2024, and were $0.15 for the three and six months ended December 31, 2023, respectively. Â 11 Â 9. COMMITMENTS AND CONTINGENCIESOther Proceedings â€" 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 Companyâ€™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. 10. RECENT ACCOUNTING PRONOUNCEMENTSIn December 2023, the Financial Accounting Standards Board (the â€œFASBâ€) issued Accounting Standards Update (â€œASUâ€) No. 2023 09 â€œImprovements to Income Tax Disclosures.â€ The amendments in this ASU are intended to increase transparency through improvements to income tax disclosures primarily related to the income tax rate reconciliation and income taxes paid information. This ASU will become effective for us for the annual period beginning in fiscal year 2026, with early adoption permitted. The Company is currently evaluating the effect that the new guidance will have on our related disclosures, but do not expect this guidance will have a material impact on our financial position and results of operations.In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which requires business entities to enhance disclosures about significant segment expenses. The ASU also requires that a public entity with a single reportable segment, like the Company, provide all of the disclosures required as part of ASU 2023-07 and all existing disclosures required by Topic 280. The ASU will become effective for us for the annual period beginning in fiscal year 2025 and for interim periods beginning with our 2026 fiscal year, on a retrospective basis, and early adoption is permitted. The Company is currently evaluating the effect that the new guidance will have on our related disclosures, but do not expect this guidance will have a material impact on our financial position and results of operations. Â 12 Â Item 2. Managementâ€™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 2024 annual report on Form 10-K. Overview The following table has been prepared as an aid in understanding the Companyâ€™s results of operations on a comparative basis for the three and six months ended December 31, 2024 and 2023. The amounts presented are percentages of the Companyâ€™s net sales. Â Â Â Three Months Ended Â Six Months Ended Â Â December 31, Â December 31, Â Â 2024 Â 2023 Â 2024 Â 2023 Net sales Â Â 100.0 Â % Â Â 100.0 Â % Â Â 100.0 Â % Â Â 100.0 Â % Cost of goods sold Â Â 79.0 Â Â Â Â 78.1 Â Â Â Â 78.7 Â Â Â Â 79.3 Â Â Gross margin Â Â 21.0 Â Â Â Â 21.9 Â Â Â Â 21.3 Â Â Â Â 20.7 Â Â Selling, general and administrative expenses Â Â 14.9 Â Â Â Â 17.3 Â Â Â Â 15.3 Â Â Â Â 17.4 Â Â (Gain) on disposal of assets held for sale Â Â (4.6) Â Â Â â€" Â Â Â Â (2.3) Â Â Â â€" Â Â Operating income Â Â 10.7 Â Â Â Â 4.6 Â Â Â Â 8.3 Â Â Â Â 3.3 Â Â Interest expense Â Â â€" Â Â Â Â 0.5 Â Â Â Â â€" Â Â Â Â 0.5 Â Â Interest (income) Â Â â€" Â Â Â Â â€" Â Â Â Â â€" Â Â Â Â â€" Â Â Income before income taxes Â Â 10.7 Â Â Â Â 4.1 Â Â Â Â 8.3 Â Â Â Â 2.8 Â Â Income tax provision Â Â 2.4 Â Â Â Â 1.0 Â Â Â Â 2.1 Â Â Â Â 0.8 Â Â Net income and comprehensive income Â Â 8.3 Â % Â Â 3.0 Â % Â Â 6.2 Â % Â Â 2.0 Â % Â Results of Operations for the Quarter Ended December 31, 2024 vs. 2023 Net sales were $108.5 million for the quarter ended December 31, 2024, compared to net sales of $100.1 million in the prior year quarter, an increase of 8.4%. The increase was driven by higher sales in home furnishings products sold through retail stores of $9.2 million, or 10.3%, led by unit volume increases, freight surcharges, and product mix. Sales of products sold through e-commerce channels decreased by ($0.8) million, or (7.1%), compared to the second quarter of the prior year. Lower sales in the e-commerce channel were driven by softer consumer demand. Home furnishings backlog was $77 million as of the quarter ended December 31, 2024, an increase of 40.0% compared to $55 million in the prior year quarter. Gross margin as a percent of net sales for the quarter ended December 31, 2024, was 21.0%, compared to 21.9% for the prior year quarter, a decrease of 90 basis points (â€œbpsâ€). The 90-bps decrease was primarily due to ocean freight charge increases partially offset by cost savings initiatives. Selling, general and administrative (â€œSG&Aâ€) expenses decreased ($1.3) million to $16.1 million in the second quarter ended December 31, 2024, as compared to $17.4 million in the prior year quarter. As a percentage of net sales, SG&A was 14.9% in the quarter ended December 31, 2024 compared to 17.3% of net sales in the prior year quarter. The 240-bps decrease was due to leverage on higher sales and structural cost savings, partially offset by investments in growth initiatives for the quarter ended December 31, 2024. During the quarter ended December 31, 2024, the Company completed the sale of its Dublin, Georgia facility which had been previously recorded as held for sale. The Company recorded a pre-tax gain of $5.0 million related to the sale. See Note 3, Assets Held For Sale, of the Notes to Consolidated Financial Statements, included in this Quarterly Report on Form 10-Q for more information Income tax expense was $2.6 million, or an effective rate of 22.4% for the quarter ended December 31, 2024, compared to an income tax expense of $1.0 million, or an effective rate of 25.5% during the quarter ended December 31, 2023. For the quarter ended Â 13 Â December 31, 2024, the effective tax rate differs from the statutory tax rate of 21% primarily due to state taxes and the impact of foreign operations. Net income was $9.1 million, or $1.62 per diluted share for the quarter ended December 31, 2024, compared to net income of $3.1 million, or $0.57 per diluted share in the prior year quarter. On February 1, 2025, the President of the United States issued executive order â€œImposing Duties To Address The Situation At Our Southern Borderâ€ which imposed a 25% tariff on all products of Mexico beginning February 4, 2025. Further executive order issued February 3, 2025, paused the implementation of these tariffs until March 4, 2025. The current situation is dynamic, and it is unknown if the two countries will reach an agreement to further pause or eliminate the pending tariffs. Given the Companyâ€™s sizable manufacturing operations in Mexico, should these tariffs be enacted they could have a material impact on our future cost of goods sold, profit and cash flow. The ultimate impact will be dependent on the magnitude and duration of the tariffs and the Company is assessing options to mitigate any potential impact. Results of Operations for the six months ended December 31, 2024 and 2023 Net sales were $212.5 million for the six months ended December 31, 2024, compared to net sales of $194.7 million in the prior-year six-month period, an increase of 9.1%. The increase in sales of $17.8 million was driven by a $20.2 million increase related to home furnishing products sold through retailers offset by a decrease of ($2.4) million for home furnishing products sold through e-commerce channels. Gross margin as a percent of net sales for the six months ended December 31, 2024, was 21.3%, compared to 20.7% for the prior-year six-month period, an increase of 60 bps. The 60-bps increase was primarily driven by sales volume leverage and structural cost reduction savings versus the prior year ended December 31, 2023. Selling, general and administrative expenses decreased ($1.4) million in the six months ended December 31, 2024, compared to the prior-year six-month period. SG&A as a percentage of sales was 15.3% in the six months ended December 31, 2024, compared to the prior-year six-month period of 17.4%. The 210-bps decrease was primarily due to sales volume leverage partially offset by investments in growth initiatives for the six months ended December 31, 2024. During the six-month period ended December 31, 2024, the Company completed the sale of its Dublin, Georgia facility which had been previously recorded as held for sale. The Company recorded a pre-tax gain of $5.0 million related to the sale. See Note 3, Assets Held For Sale, of the Notes to Consolidated Financial Statements, included in this Quarterly Report on Form 10-Q for more information Income tax expense was $4.5 million, or an effective rate of 25.3%, during the six months ended December 31, 2024, compared to income tax expense of $1.6 million in the prior-year six-month period, or an effective tax rate of 30.1%. The effective tax rate for the six months ended December 31, 2024, was primarily impacted by state taxes and the impact of foreign operations. Net income was $13.2 million, or $2.38 per diluted share for the six months ended December 31, 2024, compared to net income of $3.8 million, or $0.71 per diluted share in the prior-year six-month period. On February 1, 2025, the President of the United States issued executive order â€œImposing Duties To Address The Situation At Our Southern Borderâ€ which imposed a 25% tariff on all products of Mexico beginning February 4, 2025. Further executive order issued February 3, 2025, paused the implementation of these tariffs until March 4, 2025. The current situation is dynamic, and it is unknown if the two countries will reach an agreement to further pause or eliminate the pending tariffs. Given the Companyâ€™s sizable manufacturing operations in Mexico, should these tariffs be enacted they could have a material impact on our future cost of goods sold, profit and cash flow. The ultimate impact will be dependent on the magnitude and duration of the tariffs and the Company is assessing options to mitigate any potential impact. Liquidity and Capital Resources Working capital (current assets less current liabilities) on December 31, 2024, was $98.2 million compared to $95.0 million on June 30, 2024. The $3.2 million increase in working capital was primarily due to a decrease in accounts payable of $5.1 million, a decrease in payroll and related liabilities of $4.6 million, and an increase in other current liabilities of $0.6 million offset by an increase in other current assets of $7.2 million, an increase in cash of $7 million, and a decrease in net trade receivables of $7.9 million, a decrease in inventories of $5.5 million and a decrease in assets held for sale of $1.7 million. Refer to discussion of working capital changes below, under Net cash provided by operating activities. Capital expenditures were $1.3 million during the six months ended December 31, 2024. Â 14 Â A summary of operating, investing, and financing cash flow is shown in the following table: Â Â Â Six Months Ended Â Â Â December 31, Â (in thousands) Â 2024 Â Â 2023 Â Net cash provided by operating activities Â $ 9,091 Â Â $ 17,166 Â Net cash provided by (used in) investing activities Â Â 6,525 Â Â Â (3,058) Net cash (used in) financing activities Â Â (8,588) Â Â (14,161) Increase (decrease) in cash and cash equivalents Â $ 7,028 Â Â $ (53) Net cash provided by operating activities For the six months ended December 31, 2024, net cash provided by operating activities was $9.1 million, primarily due to an increase in net income of $13.2 million, adjustments for non-cash items including a pre-tax gain on sale of assets of $5 million, stock-based compensation of $2.1 million, depreciation of $1.9 million, and a decrease in inventory of $5.5 million offset by an increase in trade receivables of $7.9 million, an increase in accrued liabilities of $4.9 million, a decrease in other current assets of $3.6 million, an increase in accounts payable of $5.4 million and a decrease of other assets and liabilities of $0.2 million. For the six months ended December 31, 2023, net cash provided by operating activities was $17.2 million, primarily due to a decrease in inventory of $16.8 million, a decrease in trade receivables of $6.9 million, net income of $3.8 million, and adjustments for non-cash items including depreciation of $1.9 million, stock-based compensation of $1.8 million, and deferred income taxes of $0.1 million partially offset by an increase in other assets of $5.3 million, a decrease in accounts payable of $5.0 million, an increase in other current assets of $2.1 million, and a decrease in accrued liabilities of $1.7 million. Net cash provided by (used in) investing activities For the six months ended December 31, 2024, net cash provided by investing activities was $6.5 million due to proceeds from the sale of Dublin of $6.7 million, and corporate owned life insurance proceeds of $1.1 million, offset by capital expenditures of $1.3 million. For the six months ended December 31, 2023, net cash used in investing activities was $3.1 million due to capital expenditures. Net cash (used in) financing activities For the six months ended December 31, 2024, net cash used in financing activities was $8.6 million, due to payments on the line of credit of $207.1 million partially offset by proceeds from the line of credit of $202 million, shares withheld for tax payments on vested shares and options exercised of $2.1 million, dividends paid of $1.8 million, and proceeds from issuance of common stock of $0.1 million. For the six months ended December 31, 2023, net cash used in financing activities was $14.2 million, due to payments on the line of credit of $190.9 million partially offset by proceeds from the line of credit of $180.5 million, dividends paid of $1.7 million, $1.4 million paid for purchases of company stock, and $0.7 million paid for tax payments on employee vested restricted shares netted with proceeds from the issuance of common stock. Line of Credit On September 8, 2021, the Company, as the borrower, entered into a credit agreement (the â€œCredit Agreementâ€) with Wells Fargo Bank, National Association (the â€œLenderâ€), and the other lenders party thereto. The Credit Agreement has a five-year term and provides for up to an $85 million revolving line of credit. Subject to certain conditions, the Credit Agreement also provides for the issuance of letters of credit in an aggregate amount up to $5 million which, upon issuance, would be deemed advances under the revolving line of credit. Proceeds of borrowings were used to refinance all indebtedness owed to a prior lender and for working capital purposes. The Companyâ€™s obligations under the Credit Agreement are secured by substantially all its assets, excluding real property. The Credit Agreement contains customary representations, warranties, and covenants, including a financial covenant to maintain a fixed coverage ratio of not less than 1.00 to 1.00. In addition, the Loan Agreement places restrictions on the Companyâ€™s ability to incur additional indebtedness, to create liens or other encumbrances, to sell or otherwise dispose of assets, and to merge or consolidate with other entities. As of December 31, 2024, management believes the Company was in compliance with all covenants. On April 18, 2022, the Company, as the borrower, entered into a first amendment to the Credit Agreement (â€œFirst Amendment to the Credit Agreementâ€), with the Lender and the lenders thereto. The amendment to the Credit Agreement changed the definition of the term â€˜Payment Conditionsâ€™ and further defined default or event of default and the calculation of the Fixed Charge Coverage Ratio. Â 15 Â Subject to certain conditions, borrowings under the Credit Agreement initially bore interest at LIBOR plus 1.25% or 1.50% per annum. On May 24, 2023, the Company entered into a second amendment to the Credit Agreement ("Second Amendment to the Credit Agreement") with the Lender to transition the applicable interest rate from LIBOR to Secured Overnight Financing Rate ("SOFR"). Effective as of the date of the Second Amendment to the Credit Agreement, borrowings under the amended Credit Agreement bear interest at SOFR plus 1.36% to 1.61%, or an effective interest rate of 5.82%, on December 31, 2024. As of December 31, 2024, there were no outstanding borrowings under the Credit Agreement, exclusive of fees and letters of credit. Letters of credit outstanding with the Lender as of December 31, 2024, totaled $0.9 million. Contractual Obligations As of December 31, 2024, 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, 2024. Item 3. Quantitative and Qualitative Disclosures About Market Risk General â€“ 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 Companyâ€™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, as well as 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, taxes or tariffs 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. Foreign Currency Risk â€“ During the quarters ended December 31, 2024 and 2023, the Company did not have sales but did have purchases and other expenses denominated in foreign currencies, primarily the Mexican Peso. The wages of our employees and certain other employee benefits and indirect costs related to our operations in Mexico are made in Pesos and subject to foreign currency fluctuation with the U.S. dollar. The Company does not employ any foreign currency hedges against this exposure. A negative shift in the value of the U.S. dollar against the Peso could increase the cost of our manufactured product. In addition, the Company has certain asset and liabilities related to our manufacturing operations which are denominated in pesos, primarily our VAT receivable for recoverable VAT paid in Mexico. A negative shift in the value of the Peso against the U.S. dollar could result in the value of our receivable decreasing which may impact our earnings. Beginning in the third quarter of fiscal year 2025, we began using a derivative instrument to reduce our exposure to foreign currency risk from changes in the pesoâ€™s exchange rate for this exposure. See â€œRisk [MD1] Factorsâ€ in Item 1A in the most recent Annual Report on Form 10-K for further discussion. Interest Rate Risk â€“ The Companyâ€™s primary market risk exposure regarding financial instruments is changes in interest rates. On December 31, 2024, the Company had no outstanding borrowings on its line of credit, exclusive of fees and letters of credit. Item 4. Controls and Procedures (a) Evaluation of disclosure controls and procedures. Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective as of December 31, 2024. (b) Changes in internal control over financial reporting. During the quarter ended December 31, 2024, 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 Companyâ€™s internal control over financial reporting. Cautionary Statement Relevant to Forward-Looking Information for â€œSafe Harborâ€ Provisions of the Private Securities Litigation Reform Act of 1995 The Company and its representatives may from time to time make written or oral forward-looking statements concerning long-term goals or anticipated results of the Company, including statements contained in the Companyâ€™s filings with the Securities and Exchange Commission and its reports to stockholders. Statements, including those in this Quarterly Report on Form 10-Q, which are not historical or current facts, are â€œforward-looking statementsâ€ made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. There are certain important factors that could cause the Companyâ€™s results to differ materially from those anticipated by some of the statements made Â 16 Â 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, restructurings, the effectiveness of new product introductions and distribution channels, the product mix of sales, pricing pressures, the cost of raw materials and fuel, changes in foreign currency values, retention and recruitment of key employees, actions by governments including laws, regulations, taxes and tariffs, 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, disruptions or security breaches to business information systems, the impact of any future pandemic, and general economic conditions. For further information regarding these risks and uncertainties, see the â€œRisk Factorsâ€ 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 â€œRisk Factorsâ€ in the Companyâ€™s Annual Report on Form 10-K for the fiscal year ended June 30, 2024. Item 2. Unregistered Sales of Equity Securities and Use of Proceeds On January 20, 2022, the Board of Directors approved a share repurchase program authorizing the Company to purchase up to $30 million of the Companyâ€™s common stock through January 19, 2025. On December 11, 2024, the Board of Directors approved an additional share repurchase program authorizing the Company to purchase up to $30 million of the Companyâ€™s common stock. The following table summarizes the activity of the common stock repurchases made during the three months ended December 31, 2024. Â Â Â Total Number Â Â Average Â Â Total Number of Shares Â Â Approximate DollarValue of Shares Â Â Â of Shares Â Â Price Paid Â Â Purchased Â Â that May Yet Â Period Â Purchased Â Â per Share Â Â as Part of Plans Â Â Be Purchased Â October 1, 2024, to October 31, 2024 Â Â â€” Â Â $ â€” Â Â Â 1,485,274 Â Â $ 2,115,634 Â November 1, 2024, to November 30, 2024 Â Â â€” Â Â Â â€” Â Â Â 1,485,274 Â Â Â 2,115,634 Â December 1, 2024, to December 31, 2024 Â Â â€” Â Â Â â€” Â Â Â 1,485,274 Â Â Â 32,115,634 Â Three months ended December 31, 2024 Â Â â€” Â Â $ â€” Â Â Â 1,485,274 Â Â $ 32,115,634 Â Â Â 17 Â Â Item 5. Other Information Rule 10b5-1 Trading Plans During the three months ended September 30, 2024, no director or officer of the Company adopted, modified or terminated a "Rule 10b5-1 trading arrangement" or a "non-Rule 10b5-1 trading arrangement" as each term is defined in Item 408(a) of Regulation S-K. Item 6. Exhibits Â Exhibit No. Â 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.* 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.* 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.* 101.INS XBRL Instance Document** 101.SCH Inline XBRL Taxonomy Extension Schema With Embedded Linkbase Documents 104.Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) * Filed herewith ** In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall be deemed to be â€œfurnishedâ€ and not â€œfiled.â€ Â Â 18 Â 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. Â Â Â Â Â Â Â Â FLEXSTEEL INDUSTRIES, INC. Â Â Â Â Â Â Â Â Date: February 5, 2025 By: /s/ Michael J. Ressler Â Â Â Â Michael J. Ressler Â Â Â Â Chief Financial Officer Â Â Â Â (Principal Financial & Accounting Officer) Â Â Â Â 19 EX-31.1 EXHIBIT 31.1Â CERTIFICATION I, Derek P. Schmidt, certify that: Â 1.I have reviewed this quarterly report on Form 10-Q of Flexsteel Industries, Inc.; Â 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; Â 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; Â 4.The Registrantâ€™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: Â 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; Â 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; Â c)evaluated the effectiveness of the Registrantâ€™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 Â d)disclosed in this report any changes in the Registrantâ€™s internal control over financial reporting that occurred during the Registrantâ€™s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrantâ€™s internal control over financial reporting; and Â 5.The Registrantâ€™s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrantâ€™s auditors and the Audit and Ethics Committee of the Registrantâ€™s Board of Directors (or persons performing the equivalent functions): Â 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 Registrantâ€™s ability to record, process, summarize and report financial information; and Â b)any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrantâ€™s internal control over financial reporting. Â Â Date: February 5, 2025 Â Â Â /s/ Derek P. Schmidt Derek P. SchmidtChief Executive Officer Â EX-31.2 Exhibit 31.2 Â CERTIFICATION I, Michael J. Ressler, 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 Registrantâ€™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 Registrantâ€™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 Registrantâ€™s internal control over financial reporting that occurred during the Registrantâ€™s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrantâ€™s internal control over financial reporting; and 5.The Registrantâ€™s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrantâ€™s auditors and the Audit and Ethics Committee of the Registrantâ€™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 Registrantâ€™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 Registrantâ€™s internal control over financial reporting. Date: February 5, 2025 Â /s/ Michael J. Ressler Michael J. ResslerChief Financial Officer Â EX-32 Exhibit 32 Â 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 â€œCompanyâ€) on Form 10-Q for the quarter ended December 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the â€œReportâ€), we, Derek P. Schmidt, Chief Executive Officer, and Michael J. Ressler, Chief Financial Officer, of the Company, certify, pursuant to 18 U.S.C. Â§1350, as adopted pursuant to Â§906 of the Sarbanes-Oxley Act of 2002, that: (1)The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and; (2)The information contained in the Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company. Date: February 5, 2025 Â /s/ Derek P. Schmidt Derek P. SchmidtChief Executive Officer Â /s/ Michael J. Ressler Michael J. ResslerChief Financial Officer Â