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 March 31, 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)

Incorporated in State of Minnesota	42-0442319
(State or other Jurisdiction of Incorporation or Organization)	(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 **x**. No o.

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 o. No o.

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 o Accelerated filer o Non-accelerated filer o Smaller reporting company **x**

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

Common Stock - $1.00 Par Value Shares Outstanding as of March 31, 2010	6,642,644

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share data)

	March 31, 2010 (UNAUDITED)	June 30, 2009
ASSETS		
CURRENT ASSETS:		
Cash	$ 8,815	$ 1,714
Trade receivables less allowance for doubtful accounts: March 31, 2010, $1,963; June 30, 2009, $1,760	33,170	31,282
Inventories	67,648	73,844
Deferred income taxes	4,110	3,960
Other	2,033	3,913
Total current assets	115,776	114,713
NON-CURRENT ASSETS:		
Property, plant and equipment, net	22,243	23,298
Deferred income taxes	2,745	2,145
Other	11,270	10,815
TOTAL	$ 152,034	$ 150,971
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable trade	$ 9,470	$ 9,745
Notes payable		10,000
Accrued liabilities:		
Payroll and related items	7,622	4,938
Insurance	6,483	6,519
Other	6,061	5,095
Total current liabilities	29,636	36,297
LONG-TERM LIABILITIES:		
Deferred compensation	4,981	4,991
Other	3,351	2,685
Total liabilities	37,968	43,973
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 March 31, 2010, 6,642,644 shares; outstanding June 30, 2009, 6,576,373 shares	6,643	6,576
Additional paid-in capital	5,276	4,370
Retained earnings	103,488	97,816
Accumulated other comprehensive loss	(1,341)	(1,764)
Total shareholders equity	114,066	106,998
TOTAL	$ 152,034	$ 150,971

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 March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
NET SALES	$ 81,451	$ 73,627	$ 240,916	$ 249,593
COST OF GOODS SOLD	(63,418)	(61,459)	(186,286)	(204,158)
GROSS MARGIN	18,033	12,168	54,630	45,435
SELLING, GENERAL AND ADMINISTRATIVE	(14,122)	(14,459)	(43,526)	(46,622)
FACILITY CONSOLIDATION AND OTHER CHARGES		(529)		(2,381)
OPERATING INCOME (LOSS)	3,911	(2,820)	11,104	(3,568)
OTHER INCOME (EXPENSE):				
Interest and other income	115	76	238	689
Interest expense	(206)	(190)	(439)	(749)
Total	(91)	(114)	(201)	(60)
INCOME (LOSS) BEFORE INCOME TAXES	3,820	(2,934)	10,903	(3,628)
(PROVISION FOR) BENEFIT FROM INCOME TAXES	(1,500)	1,080	(4,240)	1,320
NET INCOME (LOSS)	$ 2,320	$ (1,854)	$ 6,663	$ (2,308)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:				
Basic	6,622	6,576	6,596	6,576
Diluted	6,739	6,576	6,666	6,576
EARNINGS (LOSS) PER SHARE OF COMMON STOCK:				
Basic	$ 0.35	$ (0.28)	$ 1.01	$ (0.35)
Diluted	$ 0.34	$ (0.28)	$ 1.00	$ (0.35)
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.05	$ 0.05	$ 0.15	$ 0.31

See accompanying Notes to Consolidated Financial Statements (Unaudited).

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

	Nine Months Ended March 31, 2010	Nine Months Ended March 31, 2009
OPERATING ACTIVITIES:		
Net income (loss)	$ 6,663	$ (2,308)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	2,261	2,846
Deferred income taxes	(1,009)	(336)
Stock-based compensation expense	681	114
Gain on disposition of capital assets	(15)	(227)
Gain on sale of investments		(462)
Impairment of long-lived assets		138
Changes in operating assets and liabilities:		
Trade receivables	(1,888)	11,606
Inventories	6,196	9,092
Other current assets	1,880	(130)
Other assets	226	(11)
Accounts payable trade	(310)	(3,818)
Accrued liabilities	3,609	(3,184)
Other long-term liabilities	951	(78)
Deferred compensation	(10)	(292)
Net cash provided by operating activities	19,235	12,950
INVESTING ACTIVITIES:		
Proceeds from sales of investments	301	1,279
Purchases of investments	(584)	(436)
Proceeds from sale of capital assets	20	651
Capital expenditures	(1,175)	(913)
Net cash (used in) provided by investing activities	(1,438)	581
FINANCING ACTIVITIES:		
Repayment of short-term borrowings, net	(10,000)	(1,143)
Repayment of long-term borrowings		(10,811)
Dividends paid	(988)	(2,038)
Proceeds from issuance of common stock	292	
Net cash used in financing activities	(10,696)	(13,992)
Increase (decrease) in cash	7,101	(461)
Cash at beginning of period	1,714	2,841
Cash at end of period	$ 8,815	$ 2,380

SUPPLEMENTAL CASH FLOW INFORMATION Cash paid during the period for:
(Amounts in thousands)

	Nine Months Ended March 31, 2010	Nine Months Ended March 31, 2009
Interest	$ 439	$ 758
Income taxes paid, net	$ 1,890	$ 176

See accompanying Notes to Consolidated Financial Statements (Unaudited).

FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIOD ENDED MARCH 31, 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 and nine-month periods ended March 31, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2010. 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, 2009, 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.

FAIR VALUE New accounting guidance on fair value measurements for certain financial assets and liabilities requires that assets and liabilities carried at fair value be classified and disclosed in one of three categories: Level 1: Quoted market prices in active markets for identical assets or liabilities, Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data or Level 3: Unobservable inputs reflecting the reporting entity s own assumptions or external inputs from inactive markets. The Company calculates the fair value of Level 1 and Level 2 instruments based on the exchange traded price of similar or identical instruments where available or based on other observable instruments. The Company has not changed its valuation techniques in measuring the fair value of any financial assets and liabilities during the period.

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. Inventories valued on the LIFO method would have been approximately $1.8 million higher at March 31, 2010 and $2.2 million higher at June 30, 2009, if they had been valued on the FIFO method. At March 31, 2010 and June 30, 2009 the total value of LIFO inventory was $2.4 million and $1.8 million, respectively. A comparison of inventories is as follows (in thousands):

	March 31, 2010	June 30, 2009
Raw materials	$ 8,204	$ 9,832
Work in process and finished parts	5,111	5,124
Finished goods	54,333	58,888
Total	$ 67,648	$ 73,844

3. BORROWINGS AND CREDIT ARRANGEMENTS

At March 31, 2010, the Company had lines of credit of $30.0 million with banks, with borrowings at differing rates based on the date and type of financing utilized.

The Company s credit facility agreements provided long-term borrowing availability of $10.0 million, which would have matured on September 30, 2011, and short-term borrowing availability of $15.0 million, which would have matured on June 30, 2010. The Company pledged accounts receivable and inventory as security under the credit facility agreements. The amount of credit available to the Company was based on eligible accounts receivable and inventory as defined in the agreements. At March 31, 2010, the Company had available collateral, as defined by the bank, of $49.8 million with borrowing availability of $25.0 million.

The agreements provided short-term working capital financing up to $15.0 million with interest selected at the option of the Company at a Commercial Bank Floating Rate (CBFR), which was the prime rate subject to a floor calculation of adjusted one month LIBOR rate, or LIBOR plus 2.25%. The Company had $0 and $10 million outstanding at March 31, 2010 and June 30, 2009, respectively. The short-term portion also provided overnight credit when required for operations at prime. No amounts were outstanding at March 31, 2010 and June 30, 2009 related to overnight credit. As prescribed by GAAP, which is previously discussed in Note 1, the Company recognized the fair value of the borrowings as a Level 2 valuation.

No amount was outstanding on the long-term portion of the credit facility at March 31, 2010 and June 30, 2009. Variable interest was set monthly at the option of the Company at a CBFR or LIBOR plus 3.0%. All interest rates were adjusted monthly, except for the overnight portion of the short-term line of credit, which varied daily at the prime rate.

The credit agreement contained financial covenants. The primary covenant was an interest coverage ratio calculated on a rolling four-quarter basis. At March 31, 2010, the Company was in compliance with all of the financial covenants contained in the credit agreement. On April 19, 2010, the Company terminated its $25 million secured credit agreements.

On April 14, 2010, the Company entered into an unsecured $15 million credit facility with a different bank. See Note 10.

An officer of the Company is a director at a bank where the Company maintains an unsecured $5.0 million line of credit, cumulative letters of credit and where its routine daily banking transactions are processed. No amount was outstanding on the line of credit at prime minus 1.0% at March 31, 2010 and June 30, 2009. The letter of credit facility of $3.4 million supports contingent liabilities to insurance carriers under the Company s comprehensive general, product, and vehicle liability policies as well as some workers compensation. In addition, the Company has Rabbi Trust assets related to executive officer deferred compensation that 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) <u>2007 Long-Term Management Incentive Compensation Plan</u> 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 March 31, 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, 2007 and ending on June 30, 2010, beginning July 1, 2008 and ending on June 30, 2011, and beginning July 1, 2009 and ending on June 30, 2012. The Committee has also specified that payouts, if any, for awards earned under the fiscal years 2008-2010, 2009-2011 and 2010-2012 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 other long-term liabilities. As of March 31, 2010, the Company has accrued $0.6 million for estimated awards of stock and cash under the long-term incentive plan. No compensation costs were accrued at June 30, 2009.

Under the plan, the aggregate number of shares and cash that could be awarded to key executives if the target and maximum performance goals are met are as follows (in thousands):

	At Target			At Maximum		
Performance Period	Stock		Cash	Stock		Cash
Fiscal Year 2008 2010	33	$	316	53	$	505
Fiscal Year 2009 2011	45	$	335	71	$	536
Fiscal Year 2010 2012	58	$	325	93	$	520

If the target performance goals would be achieved, the total amount of compensation cost recognized over the requisite service periods would be $0.8 million (2008-2010), $0.9 million (2009-2011) and $1.0 million (2010-2012) based on the estimated fair values at March 31, 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 March 31, 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 March 31, 2010, June 30, 2009 and 2008 and the changes during the periods then ended is pr