

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

FORM 10-Q

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

For the quarterly period ended December 31, 2018

or

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

For the transition period from _____ to _____

Commission file number **0-5151**

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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 definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act (check one).

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

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.

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 January 20, 2019

7,890,202

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

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

	December 31, 2018	June 30, 2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 25,581	\$ 27,750
Investments	7,985	15,951
Trade receivables – less allowances:		
December 31, 2018, \$100; June 30, 2018, \$1,100	42,685	41,253
Inventories	93,905	96,204
Other	10,419	8,476
Total current assets	<u>180,575</u>	<u>189,634</u>
NON-CURRENT ASSETS:		
Property, plant and equipment, net	102,614	90,725
Deferred income taxes	1,495	1,455
Other assets	2,406	2,479
TOTAL	<u>\$ 287,090</u>	<u>\$ 284,293</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable – trade	\$ 18,978	\$ 17,228
Accrued liabilities:		
Payroll and related items	5,340	5,459
Insurance	4,432	4,439
Advertising	4,954	4,192
Environmental remediation	3,600	3,600
Other	6,362	6,011
Total current liabilities	<u>43,666</u>	<u>40,929</u>
LONG-TERM LIABILITIES:		
Other liabilities	1,638	1,666
Total liabilities	<u>45,304</u>	<u>42,595</u>
SHAREHOLDERS' EQUITY:		
Common stock – \$1 par value; authorized 15,000,000 shares;		
outstanding December 31, 2018, 7,888,702 shares;		
outstanding June 30, 2018, 7,868,298 shares	7,889	7,868
Additional paid-in capital	27,012	26,321
Retained earnings	208,945	209,553
Accumulated other comprehensive loss	(2,060)	(2,044)
Total shareholders' equity	<u>241,786</u>	<u>241,698</u>
TOTAL	<u>\$ 287,090</u>	<u>\$ 284,293</u>

See accompanying Notes to Consolidated Financial Statements (Unaudited).

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Net sales	\$ 118,352	\$ 129,392	\$ 231,839	\$ 249,226
Cost of goods sold	(96,878)	(101,990)	(188,574)	(195,684)
Gross margin	21,474	27,402	43,265	53,542
Selling, general and administrative	(19,371)	(19,679)	(39,567)	(37,915)
Gain on sale of facility	—	—	—	1,835
Operating income	2,103	7,723	3,698	17,462
Other income	58	158	239	299
Income before income taxes	2,161	7,881	3,937	17,761
Income tax provision	(595)	(1,660)	(1,075)	(5,360)
Net income	\$ 1,566	\$ 6,221	\$ 2,862	\$ 12,401
Weighted average number of common shares outstanding:				
Basic	7,885	7,847	7,880	7,839
Diluted	7,917	7,937	7,922	7,931
Earnings per share of common stock:				
Basic	\$ 0.20	\$ 0.79	\$ 0.36	\$ 1.58
Diluted	\$ 0.20	\$ 0.78	\$ 0.36	\$ 1.56

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in thousands)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Net income	\$ 1,566	\$ 6,221	\$ 2,862	\$ 12,401
Other comprehensive (loss) income:				
Unrealized gain (loss) on securities	64	(59)	82	(84)
Reclassification of realized (loss) gain on securities to other income	(107)	40	(103)	75
Other comprehensive loss before taxes	(43)	(19)	(21)	(9)
Income tax benefit related to securities loss	11	8	6	4
Other comprehensive loss, net of tax	(32)	(11)	(15)	(5)
Comprehensive income	\$ 1,534	\$ 6,210	\$ 2,847	\$ 12,396

See accompanying Notes to Consolidated Financial Statements (Unaudited).

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

	Six Months Ended December 31,	
	2018	2017
OPERATING ACTIVITIES:		
Net income	\$ 2,862	\$ 12,401
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,734	3,633
Deferred income taxes	(35)	720
Stock-based compensation expense	871	592
Change in provision for losses on accounts receivable	(86)	(75)
Gain on disposition of capital assets	(42)	(1,794)
Changes in operating assets and liabilities:		
Trade receivables	(1,346)	(5,014)
Inventories	2,299	(10,827)
Other current assets	(1,980)	(391)
Accounts payable – trade	3,590	1,584
Accrued liabilities	946	325
Other long-term liabilities	117	146
Net cash provided by operating activities	<u>10,930</u>	<u>1,300</u>
INVESTING ACTIVITIES:		
Purchases of investments	(12,572)	(20,099)
Proceeds from sales of investments	20,515	18,045
Proceeds from sale of capital assets	42	6,152
Capital expenditures	(17,462)	(12,902)
Net cash used in investing activities	<u>(9,477)</u>	<u>(8,804)</u>
FINANCING ACTIVITIES:		
Dividends paid	(3,463)	(3,290)
Proceeds from issuance of common stock	52	51
Shares issued to employees, net of shares withheld	(211)	(552)
Net cash used in financing activities	<u>(3,622)</u>	<u>(3,791)</u>
Decrease in cash and cash equivalents	(2,169)	(11,295)
Cash and cash equivalents at beginning of period	27,750	28,874
Cash and cash equivalents at end of period	<u>\$ 25,581</u>	<u>\$ 17,579</u>

SUPPLEMENTAL INFORMATION
(Amounts in thousands)

	Six Months Ended December 31,	
	2018	2017
Income taxes paid, net	\$ 1,430	\$ 5,050
Capital expenditures in accounts payable	2,244	1,826

See accompanying Notes to Consolidated Financial Statements (Unaudited).

FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIOD ENDED DECEMBER 31, 2018

1. **BASIS OF PRESENTATION** – 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 six months ended December 31, 2018, are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2019. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with generally accepted accounting principles (“GAAP”) 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 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, 2018, appropriately represent, in all material respects, the current status of accounting policies and are incorporated by reference.

DESCRIPTION OF BUSINESS – Flexsteel Industries, Inc. and Subsidiaries (the “Company”) incorporated in 1929 is celebrating its 125th anniversary of the Company’s founding in 1893. Flexsteel Industries, Inc. is one of the oldest and largest manufacturers, importers and marketers of residential and contract upholstered and wooden furniture products in the United States. Over the generations the Company has built a committed retail and consumer following based on its patented, guaranteed-for-life Blue Steel SpringTM – the all-riveted, high-carbon, steel-banded seating platform that gives upholstered and leather furniture the strength and comfort to last a lifetime. With offerings for use in home, hotel, healthcare, recreational vehicle, marine and office, the Company distributes its furniture throughout the United States and Canada through the Company’s sales force and various independent representatives.

ADOPTED ACCOUNTING PRONOUNCEMENTS - In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides a framework for the recognition of revenue, with the objective that recognized revenues properly reflect amounts an entity is entitled to receive in exchange for goods and services. The guidance is effective for annual reporting periods beginning after December 15, 2017, the Company’s fiscal year 2019. The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method). The Company adopted the modified retrospective method on July 1, 2018. The adoption of this standard did not have a material impact on the Company’s consolidated financial statements as revenue is recognized when product ownership and risk of loss is transferred to the customer, collectability is probable and the Company has no remaining performance obligations. Thus, the timing of revenue recognition is not impacted by the new standard.

The Company’s revenues result from the sale of goods and reflect the consideration to which the Company expects to be entitled. The Company records revenue based on a five-step model in accordance with Accounting Standards Codification (“ASC”) 606, *Revenue from Contracts with Customers* (“ASC 606”). For its customer contracts, typically purchase orders, the Company identifies the performance obligations (goods), determines the transaction price, allocates the contract transaction price to the performance obligations, and recognizes the revenue when the performance obligation is transferred to the customer. A good is transferred when the customer obtains control of that good and risk of loss transfers at a point in time.

Provisions for customer volume rebates, product returns, discounts and allowances are variable consideration and are recorded as a reduction of revenue in the same period the related sales are recorded. Such provisions are calculated agreed upon percentages. Consideration given to customers for cooperative advertising is recognized as a reduction of revenue except to the extent there is a distinct good or service and evidence of the fair value of the advertising, in which case the expense is classified as selling, general and administrative expense (SG&A).

The Company has a limited lifetime warranty on all products. The Company does not offer the option to purchase warranties. The Company accounts for warranties under ASC 460, *Guarantees*, and not as variable consideration related to revenue.

Occasionally the Company receives deposits from customers before it has transferred control of the product to customers, resulting in contract liabilities. These contract liabilities are reported within “Accounts payable - trade” in the consolidated balance sheets. As of June 30, 2018, the Company had \$2.2 million of customer deposits. As of December 31, 2018, the Company had \$1.9 million of customer deposits.

Upon adoption of ASC 606, the Company elected the following practical expedients and policy elections:

- Costs for shipping and handling activities that occur before the customer obtains control of the product are accounted for as fulfillment activities. Accordingly, these expenses are recorded at the same time the Company recognizes revenue.
- Incremental costs of obtaining a contract, specifically commissions, are recorded as an SG&A expense when incurred.
- All taxes imposed on and concurrent with revenue-producing transactions and collected by the Company from a customer, including sales, use, excise, and franchise taxes are excluded from the measurement of the transaction price.

These accounting treatments are consistent with the Company’s policies prior to adoption of ASC 606. Therefore, there will be no impact to the consolidated financial statements.

Adoption of this standard did not result in significant changes to the Company’s accounting policies, business processes, systems or controls, or have a material impact on financial position, results from operations and cash flows or related disclosures. As such, prior period financial statements were not adjusted.

The following table disaggregates the Company’s net sales by product category for the quarter ended December 31, (in millions):

	2018	2017
Residential	\$ 99.4	\$ 110.8
Contract	19.0	18.6
Total	<u>\$ 118.4</u>	<u>\$ 129.4</u>

The following table disaggregates the Company’s net sales by product category for the six months ended December 31, (in millions):

	2018	2017
Residential	\$ 195.4	\$ 212.6
Contract	36.4	36.6
Total	<u>\$ 231.8</u>	<u>\$ 249.2</u>

UNADOPTED ACCOUNTING PRONOUNCEMENTS – In February 2016, the FASB issued ASU 2016-02, *Leases*, which will require lessees to recognize most leases on their balance sheets related to the rights and obligations created by those leases and will expand disclosure requirements. The new guidance was issued to increase transparency and comparability among companies. In July 2018, the FASB approved an amendment to the new guidance that allows companies the option of using the effective date of the new standard as the initial application (at the beginning of the period in which is it adopted, rather than at the beginning of the earliest comparative period) and to recognize the effects of applying the new ASU as a cumulative effect adjustment to the opening balance sheet or retained earnings. Based on the effective dates, the Company expects to adopt the new guidance in the first quarter of fiscal 2020 using the new transition election to not restate comparative periods. The Company is still evaluating the impact to its consolidated financial statements and footnote disclosures.

2. INVENTORIES

A comparison of inventories is as follows:

(in thousands)	December 31, 2018	June 30, 2018
Raw materials	\$ 13,615	\$ 13,335
Work in process and finished parts	7,590	7,195
Finished goods	72,700	75,674
Total	<u>\$ 93,905</u>	<u>\$ 96,204</u>

3. FAIR VALUE MEASUREMENTS

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

During the quarter ended December 31, 2018, the Company purchased available-for-sale securities, U.S. Treasury bills and U.S. Agencies, which were recorded at fair market value. These securities were classified as "Investments" in the consolidated balance sheets. Unrealized gains or losses were recorded in "Accumulated other comprehensive loss" in the consolidated balance sheets. As of December 31, 2018, the fair market value and book value of the investments were \$8.0 million. As of June 30, 2018, the fair market value and book value of the investments were \$16.0 million. These assets were classified as Level 1 in accordance with fair value measurements described above.

4. CREDIT ARRANGEMENTS

The Company maintains an unsecured credit agreement that provides short-term working capital financing up to \$10.0 million with interest of LIBOR plus 1% (4.50% at December 31, 2018), including up to \$4.0 million of letters of credit. Letters of credit outstanding at December 31, 2018, totaled \$1.3 million. Other than the outstanding letters of credit, the Company did not utilize borrowing availability under the credit facility, leaving borrowing availability of \$8.7 million as of December 31, 2018. The credit agreement expires June 30, 2019. At December 31, 2018, the Company was in compliance with all of the financial covenants contained in the credit agreement.

The Company maintains an additional unsecured \$10.0 million line of credit, with interest at prime minus 2% (3.50% at December 31, 2018). No amount was outstanding on the line of credit at December 31, 2018. This line of credit matures December 31, 2019.

5. INCOME TAXES

On December 22, 2017, the Tax Cuts and Jobs Act ("Tax Reform") was enacted, which, among numerous provisions reduced the federal statutory corporate tax rate from 35% to 21%. Based on the provisions of the Tax Reform, the Company remeasured its deferred tax assets and liabilities and adjusted its estimated annual federal income tax rate to incorporate the lower corporate tax rate into the tax provision.

During the quarters ended December 31, 2018 and 2017, the effective tax rates were 27.5% and 21.1%, respectively. The prior year quarter was positively impacted by a one-time adjustment for the passage of the Tax Reform. During the six months ended December 31, 2018 and 2017, the effective tax rates were 27.3% and 30.2%, respectively.

6. STOCK-BASED COMPENSATION

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

(1) Long-Term Incentive Compensation Plan

The long-term incentive compensation plan provides for shares of common stock to be awarded to officers and key employees based on performance targets set by the Compensation Committee of the Board of Directors (the "Committee"). The Company's shareholders previously approved 700,000 shares to be issued under the plan. As of December 31, 2018, 102,183 shares have been issued. The Committee selected fully-diluted earnings per share as the performance goal for the three-year performance periods July 1, 2016 – June 30, 2019 (2017-2019), July 1, 2017 – June 30, 2020 (2018-2020) and July 1, 2018 – June 30, 2021 (2019-2021). The Committee also selected total shareholder return as a performance goal for the executive officers for the three-year performance periods 2017-2019, 2018-2020 and 2019-2021. Stock awards will be issued to participants as soon as practicable following the end of the performance periods subject to verification of results and Committee approval. 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.

During the quarter and six months ended December 31, 2018 and December 31, 2017, the Company recorded no plan expense. If the target performance goals for 2017-2019, 2018-2020 and 2019-2021 plans would be achieved, the total amount of compensation cost recognized over the requisite performance periods would be \$0.9 million, \$0.6 million and \$0.4 million, respectively.

(2) Stock Plans

Omnibus Stock Plan

The Omnibus Stock Plan is for key employees, officers and directors and provides for the granting of incentive and nonqualified stock options, restricted stock, restricted stock units, stock appreciation rights and performance units. The Company's shareholders previously approved 700,000 shares to be issued under the plan.

Under the Omnibus Stock Plan, options are granted at an exercise price equal to the fair market value of the underlying common stock at the date of grant and exercisable for up to 10 years. 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. Shares received as payment are retired upon receipt. During the quarter ended December 31, 2018, the Company issued options for 30,210 common shares and recorded expense of \$0.1 million related to the stock option grants. The Company did not issue options or record expense for the quarter ended December 31, 2017.

During the six months ended December 31, 2018 and 2017, the Company issued options for 66,305 and 21,439 common shares and recorded expense of \$0.4 million and \$0.2 million related to stock option grants, respectively.

Under the Omnibus Stock Plan, the Company issued 3,675 and 1,701 shares to non-executive directors as compensation and recorded expense of \$0.1 million during the quarters ended December 31, 2018 and 2017, respectively. The Company issued 6,265 and 3,564 shares to non-executive directors as compensation and recorded expense of \$0.2 million during the six months ended December 31, 2018 and 2017, respectively.

During the three and six months ended December 31, 2018, the Company recorded \$0.1 million and \$0.3 million compensation expense for grants of an aggregate 39,666 restricted stock units under the plan to four executive officers as per their notification of award letters dated July 1, 2018. In addition, the Company awarded 30,000 restricted stock units and 3,186 restricted stock shares to its Chief Executive Officer per notification of award letters dated December 28, 2018. The Company recorded no compensation expense related to these grants to the Chief Executive Officer for the quarter and six months ended December 31, 2018. During the three and six months ended December 31, 2017, the Company recorded \$0.1 million and \$0.2 million compensation expense for grants of an aggregate 6,280 restricted stock units under the plan to two executive officers as per their notification of award letters dated July 1, 2017.

At December 31, 2018, 406,152 shares were available for future grants under the plan.

2006 and 2009 Stock Option Plans

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

(3) Outside a Plan

During the quarter ended December 31, 2018, the Company awarded its Chief Executive Officer 55,000 options outside any Company stock plan. The Company recorded no compensation expense related to this grant during the quarter and six months ended December 31, 2018.

(4) Summary

A summary of the status of the Company's stock plans as of December 31, 2018, June 30, 2018 and 2017 and the changes during the periods then ended is presented below:

	Shares (in thousands)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Outstanding and exercisable at June 30, 2017	187	\$ 27.21	\$ 5,039
Granted	21	45.21	
Exercised	(21)	18.89	
Canceled	(21)	26.77	
Outstanding and exercisable at June 30, 2018	166	30.65	1,841
Granted	66	27.87	
Exercised	(4)	13.81	
Canceled	(7)	36.58	
Outstanding and exercisable at December 31, 2018	221	\$ 29.90	\$ 246

The following table summarizes information for options outstanding and exercisable at December 31, 2018:

Range of Prices	Options Outstanding and Exercisable (in thousands)	Weighted Average	
		Remaining Life (years)	Exercise Price
\$ 8.55 – 13.90	14	2.2	\$ 11.91
17.23 – 19.77	26	3.3	18.88
20.50 – 27.57	66	7.0	23.91
31.06 – 32.80	64	8.0	32.30
43.09 – 47.45	51	7.7	45.37
\$ 8.55 – 47.45	221	6.7	\$ 29.90

7. EARNINGS PER SHARE

Basic earnings per share (EPS) of common stock are based on the weighted-average number of common shares outstanding during each period. Diluted earnings per share of common stock includes the dilutive effect of potential common shares outstanding. The Company's potential common shares outstanding are stock options, shares associated with the long-term management incentive compensation plan and non-vested shares. The Company calculates the dilutive effect of outstanding options using the treasury stock method. Anti-dilutive shares are not included in the computation of diluted EPS when their exercise price is greater than the average closing market price of the common shares. The Company calculates the dilutive effect of shares related to the long-term management incentive compensation plan and non-vested shares based on the number of shares, if any, that would be issuable if the end of the fiscal period were the end of the contingency period.

In computing EPS for the quarters ended December 31, 2018 and 2017, net income as reported for each respective period is divided by the fully diluted weighted-average number of shares outstanding:

(in thousands)	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Basic shares	7,885	7,847	7,880	7,839
Potential common shares:				
Stock options	20	73	33	75
Long-term incentive plan	—	14	—	15
Non-vested shares	12	3	9	2
	32	90	42	92
Diluted shares	7,917	7,937	7,922	7,931
Anti-dilutive shares	141	—	115	—

Cash dividends declared per common share were \$0.22 and \$0.44 for the quarters and six months ended December 31, 2018 and 2017.

8. LITIGATION

Environmental Matters – In March 2016, the Company received a General Notice Letter for the Lane Street Groundwater Superfund Site (the “Lane Street Site”) located in Elkhart, Indiana from the U.S. Environmental Protection Agency (EPA). In April 2016, the EPA issued their proposed clean-up plan for groundwater pollution and request for public comment. The Company responded to the request for public comment in May 2016. The EPA issued a Record Decision selecting a remedy in August 2016 and estimated total costs to remediate of \$3.6 million. In July 2017, the EPA issued a Special Notice Letter to the Company demanding that the Company perform the remedy selected and pay for the remediation cost and past response costs of \$5.5 million. On October 12, 2017, the Company offered an amount, fully reimbursable by insurance coverage, to the EPA to resolve this matter. On November 6, 2017, the settlement offer extended on October 12, 2017 was rejected.

In April 2018, the EPA issued a Unilateral Administrative Order for Remedial Design and Remedial Action (the “Order”) against the Company. The Order was issued under Section 106(a) of the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), 42 U.S.C. §9606(a). The Order directs the Company to perform remedial design and remedial action for the Lane Street Site. The Order was to be effective May 29, 2018. To ensure completion of the remediation work, the EPA required the Company to secure financial assurance in the initial amount of \$3.6 million, which as noted above, is the estimated cost of remedial work. The Company believes that financial assurance is not required because it meets the relevant financial test criteria as provided in the Order. In May 2018, the EPA agreed to suspend enforcement of the Order so that the Company could conduct environmental testing upgradient to its former manufacturing location pursuant to an Administrative Order on Consent (AOC). On July 5, 2018, the EPA proposed a draft AOC, to which the Company provided revisions. During the latter part of 2018, Flexsteel submitted to the EPA its proposed work plan for the upgradient testing to be conducted pursuant to the draft AOC. The EPA provided comments on that documentation on December 4, 2018. On January 23, 2019, Flexsteel submitted responses to the EPA’s comments and revised work plan documents. As of January 25, 2019, the Company has not finalized the AOC with the EPA. The Company reflected a \$3.6 million liability in the consolidated financial results for the fiscal year ended June 30, 2018. Despite the Company’s position that it did not cause nor contribute to the contamination, the Company continues to reflect this liability in the consolidated financials for the quarter and six months ended December 31, 2018 in accordance with FASB issued Asset Retirement and Environmental Obligations (ASC 410-30). The Company continues to evaluate the Order, its legal options and insurance coverages to assert its defense and recovery of current and future expenses related to this matter.

Other Proceedings – From time to time, the Company is subject to various other legal proceedings, including lawsuits, which arise out of, and are incidental to, the conduct of the Company’s business. The Company does not consider any of such other proceedings that are currently pending, individually or in the aggregate, to be material to its business or likely to result in a material effect on its consolidated operating results, financial condition, or cash flows.

9. SUBSEQUENT EVENTS

As of January 25, 2019, there were no subsequent events, other than the items mentioned in Note 8.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

GENERAL:

The following analysis of the results of operations and financial condition of the Company should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this quarterly report on Form 10-Q.

CRITICAL ACCOUNTING POLICIES:

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, included in our 2018 annual report on Form 10-K, with the exception of adopting the new revenue recognition standard (ASC 606) in the first quarter of fiscal 2019, as described in Note 1 of the Notes to Consolidated Financial Statements, included in this Quarterly Report on Form 10-Q.

Overview

The following table has been prepared as an aid in understanding the Company’s results of operations on a comparative basis for the quarters ended December 31, 2018 and 2017. Amounts presented are percentages of the Company’s net sales.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	(81.8)	(78.8)	(81.3)	(78.5)
Gross margin	18.2	21.2	18.7	21.5
Selling, general and administrative	(16.4)	(15.2)	(17.1)	(15.2)
Gain on sale of facility	—	—	—	0.7
Operating income	1.8	6.0	1.6	7.0
Other (expense) income, net	—	0.1	0.1	0.1
Income before income taxes	1.8	6.1	1.7	7.1
Income tax provision	(0.5)	(1.3)	(0.5)	(2.1)
Net income	1.3%	4.8%	1.2%	5.0%

Results of Operations for the Quarter Ended December 31, 2018 vs. 2017

The following table compares net sales for the quarter ended December 31, (in millions):

	2018	2017	\$ Change	% Change
Residential	\$ 99.4	\$ 110.8	\$ (11.4)	-10.3%
Contract	19.0	18.6	0.4	2.2%
Total	\$ 118.4	\$ 129.4	\$ (11.0)	-8.5%

Net sales were \$118.4 million for the quarter compared to record net sales of \$129.4 million in the prior year quarter, a decrease of 8.5% from the prior year period. Lower residential net sales were primarily driven by decreased unit volume in residential ecommerce product, followed by lower volume in home furnishings products. Despite being lower than prior year quarter, the Company’s product sales volume through ecommerce distribution continued to rebound after channel disruption due to the partial implementation of the business information system in the fourth quarter of fiscal 2018. Overall, on a sequential quarter basis, residential product unit volume excluding products sold through ecommerce distribution, improved by a percentage in the low-single digits. Higher second quarter contract net sales were primarily driven by double-digit increased volume in recreational vehicle and healthcare products offset by the delivery timing of hospitality products and the previously disclosed plan to decrease sales to certain commercial office product customers.

Gross margin as a percent of net sales for the quarter ended December 31, 2018 was 18.2% compared to 21.2% for the prior year quarter. The quarter decrease in gross margin as a percentage of net sales was primarily driven by increased labor and raw material costs, partially offset by sell price increases. Labor costs moderated but remained higher than expected and accounted for approximately 130 basis point decrease for the second quarter. Raw material price increases, primarily in polyurethane and plywood, resulted in approximately 60 basis points of gross margin deterioration during the current quarter compared to the prior year quarter. Onetime costs associated with the relocation of equipment and inventory to the new Dubuque manufacturing facility in the second quarter resulted in an adverse impact to gross margin of 40 basis points. The move is expected to be completed during the third fiscal quarter of 2019. Consistent with ASC 606, the classification of certain rebates as a reduction of sales adversely impacted the quarter results by approximately 80 basis points.

Selling, general and administrative (SG&A) expenses were 16.4% of net sales in the second quarter, compared to 15.2% of net sales in the second quarter of fiscal 2018. The Company's SG&A expenses increased 50 basis points during the second quarter due to the transition of SAP consulting services from capitalizable development services to stabilization maintenance services.

The Company incurred \$0.7 million pre-tax SG&A expense, or 60 basis points, during the quarter ended December 31, 2018 due to expenses associated with the appointment of Jerry Dittmer as President and Chief Executive Officer. On an after-tax basis, the expense represents \$0.5 million or \$0.07 per share.

The effective tax rate for the second quarter was 27.5% compared to 21.1% in the prior year quarter. The prior year quarter was positively impacted by a one-time adjustment for the passage of the Tax Cuts and Jobs Act (Tax Reform).

The above factors resulted in net income of \$1.6 million or \$0.20 per share for the quarter ended December 31, 2018, compared to \$6.2 million or \$0.78 per share in the prior year quarter.

All earnings per share amounts are on a diluted basis.

Results of Operations for the Six Months Ended December 31, 2018 vs. 2017

The following table compares net sales for the six months ended December 31, (in millions):

	2018	2017	\$ Change	% Change
Residential	\$ 195.4	\$ 212.6	\$ (17.2)	-8.1%
Contract	36.4	36.6	(0.2)	-0.5%
Total	\$ 231.8	\$ 249.2	\$ (17.4)	-7.0%

Net sales were \$231.8 million for the six months ended December 31, 2018, compared to \$249.2 million in the prior year six-month period, a decrease of 7.0% from the prior year period. Lower residential net sales for the current six-month period were primarily driven by decreased unit volume in residential ecommerce product, followed by lower unit volume in home furnishings products. Despite being lower than prior year quarter, the Company's product sales volume through ecommerce distribution continued to rebound after channel disruption due to the partial implementation of the business information system in the fourth quarter of fiscal 2018. Current year contract net sales were primarily driven by double-digit increased volume in recreational vehicle products offset by the previously disclosed plan to decrease sales to certain commercial office product customers.

For the six months ended December 31, 2018, gross margin as a percent of net sales was 18.7%, compared to 21.5% for the prior year period. The current fiscal year decrease in gross margin as a percentage of net sales was primarily driven by increased labor and raw material costs partially offset by sell-price increases. Labor costs moderated but remained higher than expected and accounted for approximately 160 basis point decrease for the fiscal year versus the comparable prior year period. Raw material price increases, primarily in polyurethane and plywood, resulted in approximately 100 basis points of gross margin deterioration during the current fiscal year compared to the prior fiscal year. Onetime costs associated with the relocation of equipment and inventory to the new Dubuque manufacturing facility in the second quarter resulted in an adverse impact to gross margin of 20 basis points for the six months ended December 31, 2018. The move is expected to be completed during the third fiscal quarter of 2019. Consistent with ASC 606, the classification of certain rebates as a reduction of sales adversely impacted the current fiscal year results by approximately 80 basis points.

Selling, general and administrative (SG&A) expenses were 17.1% of net sales in the current fiscal year, compared to 15.2% of net sales in the prior year period. The Company's SG&A expenses increased 30 basis points during the current fiscal year due to the transition of SAP consulting services from capitalizable development services to stabilization maintenance services.

The Company incurred \$0.7 million pre-tax SG&A expense, or 30 basis points, during the six-month period ended December 31, 2018 due to expenses associated with the appointment of Jerry Dittmer as President and Chief Executive Officer. On an after-tax basis, the expense represents \$0.5 million or \$0.07 per share. SG&A expenses for the six months also included \$1.3 million pre-tax expense for one-time severance and ancillary costs related to the retirement of the former president and chief executive officer. On an after-tax basis, the expense represents \$1.0 million or \$0.13 per share.

During the prior fiscal year six-month period, the Company completed a \$6.5 million sale of a facility and recognized a pre-tax gain of \$1.8 million. On an after-tax basis, the gain represents \$1.3 million or \$0.16 per share.

The effective tax rate for the six months ended December 31, 2018 was 27.3% compared to 30.2% in the prior year period.

The above factors resulted in net income of \$2.9 million or \$0.36 per share for the six-months ended December 31, 2018 compared to \$12.4 million or \$1.56 per share for the prior year period.

All earnings per share amounts are on a diluted basis.

Liquidity and Capital Resources

Working capital (current assets less current liabilities) at December 31, 2018 was \$136.9 million compared to \$148.7 million at June 30, 2018. Primary changes in working capital included increases of \$1.9 million in other current assets and \$1.8 million in accounts payable and decreases in investments of \$8.0 million, inventory of \$2.3 million and cash and cash equivalents of \$2.2 million.

For the six months ended December 31, 2018, capital expenditures were \$17.5 million, including \$13.3 million for the Company's new manufacturing facility. During the six months ended December 31, 2018, dividend payments increased to \$3.5 million from \$3.3 million during the prior year period.

The Company maintains a credit agreement which provides unsecured short-term working capital financing up to \$10.0 million with interest of LIBOR plus 1% (4.50% at December 31, 2018), including up to \$4.0 million of letters of credit. Letters of credit outstanding at December 31, 2018 totaled \$1.3 million, leaving borrowing availability of \$8.7 million. The credit agreement expires June 30, 2019.

The Company maintains an additional unsecured \$10.0 million line of credit, with interest at prime minus 2% (3.50% at December 31, 2018). No amount was outstanding on the line of credit at December 31, 2018. This line of credit matures December 31, 2019.

Net cash provided by operating activities of \$10.9 million for the six months ended December 31, 2018 was comprised primarily of net income of \$2.9 million, depreciation of \$3.7 million, a decrease in inventory of \$2.3 million, and increases in accounts payable of \$3.6 million and accounts receivable of \$1.3 million. Net cash provided by operating activities for the six months ended December 31, 2017 was \$1.3 million.

Net cash used in investing activities was \$9.5 million for the six months ended December 31, 2018 compared to net cash used in investing activities of \$8.8 million for the six months ended December 31, 2017. Capital expenditures were \$17.5 million and \$12.9 million during the six months ended December 31, 2018 and 2017, respectively. Net proceeds from sales of investments were \$7.9 million during the six months ended December 31, 2018.

Net cash used in financing activities was \$3.6 million for the six months ended December 31, 2018 primarily due to dividends paid of \$3.5 million. Net cash used in financing activities was \$3.8 million for the six months ended December 31, 2017 primarily due to dividends paid of \$3.3 million.

Capital expenditures are estimated to be \$2 million for the remainder of fiscal 2019. Management believes that the Company has adequate cash and cash equivalents, investments, cash flows from operations and credit arrangements to meet its operating and capital requirements for fiscal year 2019. In the opinion of management, the Company's liquidity and credit resources provide it with the ability to react to opportunities as they arise, to pay quarterly dividends to its shareholders, and to purchase productive capital assets that enhance safety and improve operations.

Contractual Obligations

As of December 31, 2018, 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, 2018.

Outlook

In addition to delivering on sales growth opportunities, management is focused on making progress in three key areas to improve operating results:

1. SAP stabilization and finalizing the future roll out plan;
2. Productivity improvement and operational execution; and
3. Current and future tariff mitigation.

SAP Stabilization and Future Planning Status

With the partial implementation of the new business information system in fiscal fourth quarter of 2018, the Company experienced higher than expected disruption to customers that resulted in service level penalties and volume impacts. These disruptions and higher costs extended into the first fiscal quarter of 2019. During the second fiscal quarter of 2019, the implementation team reorganized, including bringing in new leadership and implementing a long-term support structure. This team made significant progress in system stabilization and customer service level improvements back to near normal rates. Because of the large order volumes and quick ship requirements, the ecommerce channel requires time to rebuild credibility through consistent and flawless delivery execution after disappointing customers. Therefore, the rate of recovery is paced to the Company's ability to sustain service levels consistent with historically normal and expected performance.

Upon further review and consideration of the first deployment of SAP S/4 HANA and poor execution due primarily to applicability of system design and solution, Company readiness and resourcing constraints, the Company is re-evaluating the solution, the business needs, resource capability, the timeline and cost of moving forward. This re-evaluation includes analyzing the total investment to date, the viability of the investment to fulfill the needs of the business and the probability of success of migrating the remaining portions of the business without significant rework of the system design and undergoing deeper business process transformation.

The Company's balance sheet at December 31, 2018 includes \$26 million in net book value related to the SAP business information system. In the fourth quarter of fiscal 2018, the Company stated that it would complete the remaining deployment of SAP during fiscal 2020. The Company no longer believes this timeline is achievable. Instead, the Company will be completing the re-evaluation activities as described above with a thorough evaluation of the work completed to date including financial implications, its usefulness in the context of further implementation, the implications of that assessment mainly financial in nature, the provision of a revised scope, if applicable, and an outlook on timing and cost of project completion. The Company expects this re-evaluation and go forward plan to be completed by the end of this fiscal year.

Productivity and Operational Execution

Excluding labor inefficiencies attributable to the Dubuque manufacturing facility relocation, labor costs in the second quarter improved compared to first quarter results as the Company reduced excess labor capacity. While labor efficiency and utilization continued to be a challenge in the quarter, management is identifying and implementing additional initiatives to further mitigate increased labor costs, enhance service levels and reduce lead times.

Tariff Mitigation

The Company has worked to reduce Chinese sourced product costs in order to mitigate the size of sell price increases passed through to the marketplace during the first tariff implementation in September 2018. Although difficult to quantify, the Company believes there has been an adverse impact on order rates due to the current tariff level as some retailers have altered buying patterns and quantities since tariff implementation.

The Company anticipates additional volume declines if the tariff is escalated to 25% in March 2019. In preparation for the potential 25% tariff, the Company is aggressively working on supply chain realignment to provide cost reductions and mitigate price increases. Depending on the level of price increase at wholesale, which passes through to retail, there could be significant volume contraction in residential home furnishings. Inability to reduce Chinese sourced product costs or pass through pricing to mitigate the tariffs poses significant risk to current and future earnings.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Foreign Currency Risk – During the quarters ended December 31, 2018 and 2017, the Company did not have sales, but has purchases and other expenses denominated in foreign currencies. The market risk associated with currency exchange rates and prices is not considered significant.

Interest Rate Risk – The Company’s primary market risk exposure with regard to financial instruments is changes in interest rates. At December 31, 2018, the Company did not have any debt outstanding.

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, 2018.

(b) *Changes in internal control over financial reporting.* During the quarter ended December 31, 2018, there were no significant changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended) that have materially affected, or are reasonably likely to materially affect the Company’s internal control over financial reporting.

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

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

Statements, including those in this Quarterly Report on Form 10-Q, which are not historical or current facts, are “forward-looking statements” made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. There are certain important factors that could cause our results to differ materially from those anticipated by some of the statements made herein. Investors are cautioned that all forward-looking statements involve risk and uncertainty. Some of the factors that could affect results are the cyclical nature of the furniture industry, supply chain disruptions, litigation, the effectiveness of new product introductions and distribution channels, the product mix of sales, pricing pressures, the cost of raw materials and fuel, retention and recruitment of key employees, actions by governments including laws, regulations, taxes and tariffs, inflation, the amount of sales generated and the profit margins thereon, competition (both U.S. and foreign), credit exposure with customers, participation in multi-employer pension plans and general economic conditions. For further information regarding these risks and uncertainties, see the “Risk Factors” section in Item 1A of our most recent Annual Report on Form 10-K.

The Company specifically declines to undertake any obligation to publicly revise any forward-looking statements that have been made to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

PART II OTHER INFORMATION

Item 1A. Risk Factors

Other than the item mentioned below, there has been no material change in the risk factors set forth under Part 1, Item 1A “Risk Factors” in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2018.

Effective September 24, 2018, the current U.S. administration imposed a 10% tariff on goods imported into the United States from China, including all furniture and furniture components manufactured in China, with the potential for the tariffs to increase to 25% on March 1, 2019. In fiscal 2018, approximately 44% of the Company’s sales were imported from China. Inability to reduce acquisition costs or pass through price increases may have an adverse impact on sales volume, earnings and liquidity.

The Company will be analyzing the SAP S/4 HANA solution designed and partially implemented to date. The analysis will include the total investment expended, the viability of the system design to fulfill the needs of the business, the probability and level of rework of the system design while also evaluating the potential need to undergo deeper business process transformation prior to further roll out and implementation of the solution. These activities and analyses may lead to the potential impairment of a significant portion of the capital expenditure invested to date. The net book value associated with the SAP business information system included in property, plant, and equipment in the consolidated balance sheet as of December 31, 2018 was \$26 million.

Item 6. Exhibits

- [10.1](#) [Executive Employment Agreement, dated December 28, 2018 with Jerald K. Dittmer.](#)
- [10.2](#) [Notification of Non-Statutory Stock Option Award, dated December 28, 2018 for Jerald K. Dittmer.](#)
- [10.3](#) [Notification of Restricted Stock Award, dated December 28, 2018 for Jerald K. Dittmer.](#)
- [10.4](#) [Form of Notification of Non-Statutory Stock Option Award.](#)
- [31.1](#) [Certification](#)
- [31.2](#) [Certification](#)
- [32](#) [Certification by President and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)

- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.LAB XBRL Taxonomy Extension Labels Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FLEXSTEEL INDUSTRIES, INC.

Date: February 6, 2019

By: /s/ Marcus D. Hamilton
Marcus D. Hamilton
Chief Financial Officer
(Principal Financial & Accounting Officer)

EXECUTIVE EMPLOYMENT AGREEMENT

THIS EXECUTIVE EMPLOYMENT AGREEMENT (the “**Agreement**”) is entered into by and between Flexsteel Industries, Inc. (the “**Company**”), and Jerald K. Dittmer (“**Executive**”) (the Company and Executive, collectively, the “**Parties**” and each, a “**Party**”) as of the date of Executive’s signature below and is effective as of the Executive’s start date with the Company, which is anticipated to be December 28, 2018, 12:01 a.m. (the “**Effective Date**”).

WHEREAS, Executive wishes to be employed by the Company and the Company desires to employ Executive as its President and Chief Executive Officer (“**CEO**”) on the terms and conditions set forth in this Agreement;

WHEREAS the Company desires to employ Executive as its CEO according to the terms and conditions of this Agreement and the Company’s Board of Directors (the “**Board**”) has authorized such offer of employment;

WHEREAS the Company’s offer of employment made to Executive, and the Company’s offer of this Agreement and the consideration and benefits provided herein, are contingent on Executive signing and accepting that certain Confidentiality and Noncompetition Agreement between Executive and the Company (the “**Confidentiality Agreement**”), a copy of which is attached hereto as Exhibit A; and

WHEREAS, Executive has executed, agreed to fulfill, and has delivered to the Company such executed, Confidentiality Agreement.

NOW, THEREFORE, in consideration of and reliance on these recitals and premises, which are hereby incorporated, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged and intending to be legally bound, the Parties agree as follows:

1. **Employment; Employment Term.** Upon the terms and conditions hereinafter set forth, the Company hereby agrees to retain the services of Executive and Executive hereby accepts such employment and agrees to faithfully and diligently serve as directed by the Board, and in accordance with this Agreement, commencing on the Effective Date and continuing until terminated pursuant to Section 5 of this Agreement (the “**Employment Term**”).

2. **Duties.**

(a) **Services.** During the Employment Term, Executive agrees to serve as CEO of the Company and shall render Executive’s duties as CEO in a manner that is consistent with Executive’s position within the Company and as assigned by the Board, and/or at the option of the Board. Additionally, as soon as practicable after the Effective Date, the Board will elect Executive to the Board of Directors and Executive will thereafter stand for reelection to the Board as provided for in the Bylaws. Executive also agrees to serve as any elected/appointed director or officer of any subsidiary of the Company that the Company may, in its sole discretion, deem fit and Executive shall serve in such capacity or capacities without additional compensation during the Employment Term. Executive shall spend substantially all of Executive’s business time and attention at the Company’s headquarters in Dubuque, Iowa, however Executive’s employment under this Agreement will require travel and stay outside Dubuque, Iowa and the United States in order to fulfill Executive’s duties hereunder.

(b) **Certain Obligations.** During the Employment Term, Executive (i) shall devote 100% of Executive's business time and attention to achieve, in accordance with the policies and directives of the Board, and/or, at the option of the Board, the CEO, established from time to time in its/their/Executive's discretion, the objectives of the Company, (ii) shall be subject to, and comply with, the rules, practices and policies applicable to executive employees whether reflected in an employee handbook, code of conduct, compliance policy or otherwise, as the same may exist and be amended from time to time, of the Company; and (iii) shall not engage in any business activities other than the performance of Executive's duties under this Agreement. Notwithstanding the foregoing, provided that Employee does not violate the Confidentiality Agreement, Executive may participate in civic, religious and charitable activities, may make passive personal investments in other entities, and may serve as a director for the entities and in the capacities set forth on Exhibit B hereto, or as otherwise approved by the Board in writing.

3. **Compensation.** For the services rendered herein by Executive, and the promises and covenants made by Executive herein, during the Employment Term the Company shall pay compensation to Executive as follows.

(a) **Base Salary.** In exchange for Executive's services, the Company shall pay to Executive the sum of SEVEN HUNDRED THOUSAND DOLLARS (\$700,000) as an annual salary (the "**Base Salary**"), payable in accordance with the normal payroll practices of the Company. The Board may review Executive's Base Salary and may, in its sole discretion, adjust Executive's Base Salary upon such review.

(b) **Signing Bonus.** In Exchange for Executive's acceptance of the Company's offer of employment and the terms and conditions of this Agreement, the Company will provide Executive a signing bonus (the "**Signing Bonus**") on the Effective Date in the form of (i) an option to purchase 30,000 shares of common stock under the Omnibus Stock Plan and (ii) an option to purchase 55,000 shares of common stock outside of any Company stock plan as an inducement grant under Nasdaq rules and under substantially similar terms to the Omnibus Stock Plan grant. The exercise price of these options will be the Company's closing stock price on the Effective Date. One third of these options will vest on each of July 1, 2019, July 1, 2020 and July 1, 2021. Notwithstanding the foregoing, Executive will not receive the Signing Bonus unless and until the conditions and obligations set forth in Section 7 below are met and fulfilled.

(c) **Annual Incentive.** Executive will be eligible to participate in the Company's Cash Incentive Plan ("**CIP**"). Executive's participation in the CIP is initially set at 115% of his base salary at a target award. Executive's participation for fiscal year 2019 will be prorated for days employed and the prorated amount of the award will be guaranteed at the target level and subject to increase if the target level is exceeded. The Compensation Committee of the Board of Directors establishes the goals for executive officers under the CIP annually with input from the CEO.

(d) **Long-Term Incentive.** Executive will be eligible to participate in the Company's Long-Term Incentive Plan ("LTIP") beginning with the July 1, 2019 through June 30, 2022 performance period. Executive's participation in the LTIP is set at 85% of his base salary at a target award. The Compensation Committee of the Board of Directors will establish the goals for the executive officers for the future three-year performance periods with input from the CEO.

(e) **Special Hiring Award.** In lieu of an award under the LTIP for performance periods beginning before July 1, 2019, Executive will be granted on the Effective Date a special hiring award of \$750,000 in the form of a combination of Restricted Stock Units and Restricted Stock in an aggregate number based upon the average closing price for the ten trading days prior to the Effective Date will be granted on the Effective Date and will vest as follows:

Grant Date Value	Vesting Date
\$125,000	July 1, 2019
\$250,000	July 1, 2020
\$250,000	July 1, 2021
\$125,000	July 1, 2022

(f) **No Additional Compensation.** Except for compensation set forth in this Agreement, Executive shall not receive additional compensation in connection with providing services to or holding executive or directorial office(s) in the Company or any of its subsidiaries unless otherwise agreed to by Executive and the Company in the Company's sole discretion.

4. **Benefits.** During Executive's employment with the Company, Executive shall be entitled to participate in all retirement plans, health plans, paid time off benefits and other employee benefits and policies (including expense reimbursement policies) made available by the Company to its officers and/or executive employees generally, as they may change from time to time. Executive shall also be eligible to participate in the Company's supplemental health insurance plan and furniture program. Further, the Company shall reimburse Executive for annual membership fees to a Dubuque, Iowa area country club and for Executive's annual personal income tax preparation and filing fees. Executive acknowledges and agrees that except as specifically set forth in this Agreement, the Company is under no obligation to Executive to establish or maintain any specific employee benefits in which Executive may participate, and that Executive's eligibility for employee benefits shall be governed by the terms and provisions of the Company benefit plans or policies, all of which are subject to change by the Company, subject to applicable law. Upon the termination of Executive's employment, Executive shall be entitled to continue those benefits as may be required by state or federal law. In addition, Executive is expected to relocate he and his family to Dubuque, Iowa. Executive will be paid \$150,000 to cover all relocation related expenses and is not entitled to any other reimbursement for such expenses. This \$150,000 amount will be fully grossed up for federal and state income taxes and for Medicare taxes. Executive agrees that if he voluntarily terminates his employment with the Company within 2 years of the Effective Date, the \$150,000 relocation expense payment (prorated for length of service within the 2 years) will be immediately repaid to the Company.

5. Termination; Severance Opportunity.

(a) **At-Will Employment.** Executive and the Company agree that Executive's employment with the Company is at-will and either Executive or the Company, by and through the Board, may terminate Executive's employment, at any time, with or without any cause, with no prior notice.

(b) **Payments Upon Separation.** When Executive's employment with the Company ends, for any reason, the Company shall pay to Executive: (i) any earned but unpaid Base Salary through the Employee's last day of employment with the Company (such date, the "**Separation Date**"); and (ii) any unreimbursed but validly reimbursable business expenses incurred by Executive on or before the Separation Date. Upon the termination of Executive's employment for any reason, Executive shall be entitled to continue those benefits as may be required by state or federal law at Executive's own cost and expense.

(c) **Participation in Severance Plan.** Executive shall have the opportunity to participate in the Company's Severance Plan for Management Employees dated October 25, 2018, and as amended (the "**Severance Plan**") according to its terms and conditions. Executive's eligibility to receive any severance payments shall be exclusively governed by the terms and conditions of the Severance Plan.

(d) **Resignation From Board.** When Executive's employment with the Company ends, for any reason, Executive agrees to resign from the Company's Board.

6. Representations. Executive represents and warrants that:

(a) Executive's performance of all the terms and duties set forth in this Agreement will not breach any agreement to keep in confidence proprietary information acquired by Executive in confidence or in trust prior to or outside of Executive's employment by the Company. Executive hereby represents and warrants that Executive has not entered into, and will not enter into, any oral or written agreement in conflict herewith. The Company acknowledges Executive's letter of agreement with HNI Corporation dated February 16, 2018. The Company represents, warrants, and covenants that it will not encourage or require executive to engagement in activities in violation of such agreement.

(b) Executive is not subject to any other agreement that Executive will violate by working with the Company or in the position for which the Company has hired Executive. Further, Executive represents that no conflict of interest or a breach of Executive's fiduciary duties will result by working with and performing duties for the Company.

(c) Executive has carefully read this Agreement and that Executive has asked any questions needed for Executive to understand the terms, consequences and binding effect of this Agreement and fully understands it and that Executive has been provided an opportunity to seek the advice of legal counsel of Executive's choice before signing this Agreement.

(d) During the period in which Executive receives any severance benefits under the Severance Plan that Executive will provide a prompt response to Company in the event Company requests information connected to Executive's employment with the Company or regarding non-confidential information regarding Executive's subsequent employment after ceasing to be an employee of the Company.

(e) Executive is not currently involved, directly or indirectly, in any litigation as a defendant or as a party subject to any counterclaims, nor is any such litigation threatened against Executive, directly or indirectly.

7. **Drug Screening/Form I-9.** Executive understands and agrees that he must complete pre-employment drug screening determined by, and to the satisfaction of, the Company. In addition, Executive must complete the employee portion of a federal Form I-9 and provide any documentation required by such form within three days after the Effective Date. In the event any pre-employment drug screening is not successful to the satisfaction of the Company or that Executive does not fulfill his obligations related to the Form I-9 demonstrating his authorization to work in the United States, this Agreement will be null and void.

8. **Miscellaneous.**

(a) **Notices.** All notices, requests, consents and other communications hereunder (i) shall be in writing, (ii) shall be effective upon receipt, and (iii) shall be sufficient if delivered personally, electronically with receipt confirmation, or by mail, in each case addressed as follows:

If to the Company:

Flexsteel Industries, Inc.
Chair of the Compensation Committee
385 Bell Street
Dubuque, Iowa 52001

With a copy to:

Gray Plant Mooty
500 IDS Center
80 South Eighth Street
Minneapolis, MN USA 55402
Attn: JC Anderson
Email: JC.Anderson@gpmlaw.com

If to Executive:

To Executive's most recent residential address or otherwise known by the Company or any other address Executive may provide to the Company in writing.

(b) Entire Agreement. This Agreement (including its Exhibits), the Confidentiality Agreement, the Severance Plan, CIP, LTIP, Omnibus Incentive Plan, Benefits Summary, 401K plan, Supplemental Health Plan, and related benefit agreements constitute the entire agreement by and between the Parties with respect to the subject matter contained herein and supersede all prior agreements or understandings, oral or written, with respect to the subject matter contained herein. Notwithstanding the foregoing, Executive shall remain subject to and bound by any employee handbook and any other employee policies adopted from time to time.

(c) Amendments; Waivers; Etc. This Agreement may not be altered, amended or modified in any manner, nor may any of its provisions be waived, except by written amendment executed by the Parties hereto that specifically states that they intended to alter, amend or modify this Agreement. No provision of this Agreement may be waived by either Party hereto except by written waiver executed by the waiving party that specifically states that it intends to waive a right hereunder. Any such waiver, alteration, amendment or modification shall be effective only in the specific instance and for the specific purpose for which it was given. No remedy herein conferred upon or reserved by a Party is intended to be exclusive of any other available remedy, but each and every such remedy shall be cumulative and in addition to every other remedy given under this Agreement or in connection with this Agreement and now or hereafter existing at law or in equity.

(d) Governing Law and Venue. This Agreement and the rights of the Parties shall be governed by and construed and enforced in accordance with the laws of the State of Iowa, without regard to any state's choice of law principles or rules. The venue for any action hereunder shall be in the State of Iowa, County of Dubuque, whether or not such venue is or subsequently becomes inconvenient, and the parties consent to the jurisdiction of the state and federal courts in or applicable to the State of Iowa, County of Dubuque.

(e) Successors and Assigns. Neither this Agreement nor any rights or obligations hereunder are assignable by Executive. The Company shall have the right to assign its rights and obligations under this Agreement to any affiliate or successor of the Company. This Agreement will be binding upon and inure to the benefit of (a) the heirs, executors and legal representatives of Executive upon Executive's death and (b) any successor of the Company. Any such successor of the Company (including but not limited to any person or entity which at any time, whether by purchase, merger or otherwise, directly or indirectly acquires all or substantially all of the assets or business of the Company) will be deemed substituted for the Company under the terms of this Agreement for all purposes.

(g) Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, and all of which together shall constitute one and the same instrument.

(h) Tax Withholding. All payments made pursuant to this Agreement will be subject to withholding of applicable taxes.

(i) Section Headings. The headings of the sections and subsections of this Agreement are inserted for convenience only and shall not be deemed to constitute a part thereof, affect the meaning or interpretation of this Agreement or of any term or provision hereof.

SIGNATURE PAGE TO EXECUTIVE EMPLOYMENT AGREEMENT

IN WITNESS WHEREOF, the parties have executed this Employment Agreement as of the date set forth below.

December 17, 2018
Date

EXECUTIVE

/s/ Jerald K. Dittmer
Jerald K. Dittmer

FLEXSTEEL INDUSTRIES, INC.

December 17, 2018
Date

By: /s/ Thomas M. Levine
Thomas M. Levine
Its: Chair of the Board



Flexsteel Industries, Inc.
385 Bell Street
Dubuque, IA 52001

T 563.556.7730
F 563.556.8345
www.flexsteel.com

EXHIBIT A

CONFIDENTIALITY AND NONCOMPETITION AGREEMENT

Agreement made December 28, 2018 between Flexsteel Industries, Inc., a corporation organized and existing under the laws of Minnesota, with its principal office located at 385 Bell Street, Dubuque, Iowa ("**Flexsteel**") on behalf of itself and its subsidiaries and Jerald K. Dittmer ("**Employee**") (collectively referred to as the "**Parties**").

RECITALS

Flexsteel has employed Employee to devote his/her full time, attention, and energies to the business of Flexsteel and to use his/her best efforts, skill, and abilities in performing the specific duties of such employment, and Employee shall not, without prior written consent of Flexsteel, either directly or indirectly, engage in any other occupation, profession or business.

As a result of the employment by Flexsteel, Employee will have access to information not generally known to the general public or in the industry(s) in which Flexsteel is or may become engaged about Flexsteel's business/functional strategies, product design and development), processes, customers, services, suppliers, pricing policies, marketing strategies and related matters. In addition, Flexsteel may provide training to Employee in relation to these areas. It is the desire of Flexsteel and Employee that all such training and information be and remain confidential.

In consideration of the matters described above, and of the mutual benefits and obligations set forth in this Agreement, the Parties agree as follows:

SECTION ONE: CONFIDENTIALITY

- A. **Nondisclosure.** Employee shall not, during or after the term of this Agreement, directly or indirectly, use, disseminate, or disclose to any person (including other employees of Flexsteel not having a need to know or authority to know), firm or other business entity for any purpose whatsoever, any information not generally known in the industry in which Flexsteel is or may be engaged which was disclosed to Employee or known by Employee as a result of or through his/her employment by Flexsteel. This includes information regarding Flexsteel's employee's products, processes, customers, services, suppliers, pricing policies and related matters, and also includes information relating to research, development, inventions, manufacture, purchasing, accounting, engineering, marketing, merchandising, and selling.
- B. **Confidential Relationship.** Employee shall hold in a fiduciary capacity for the benefit of Flexsteel all information in paragraph A above, along with any and all inventions, discoveries, concepts, ideas, improvements, ideas, improvements or know-how, discovered or developed by Employee, solely or jointly with other employees, during the term of this Agreement, which may be directly or indirectly useful in or related to the business of Flexsteel or its subsidiaries, or may be within the scope of its or their research or development work.
- C. **Customer Lists.** Employee shall, at the time of and during employment, furnish a complete list of all the correct names and places of businesses of all its customers, immediately notify Flexsteel of the name and address of any new customer, and report all changes in location of old customers, so that upon the termination of employment, Flexsteel will have a complete list of the correct names and addresses of customer with whom Employee has dealt.



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385 Bell Street
Dubuque, IA 52001

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- D. Return of Documents.** To protect the interests of Flexsteel, Employee agrees that, during or after the termination of Employee's employment by Flexsteel, all documents, records, notebooks, and similar repositories containing such information described in paragraphs A, B and C above, including copies of such items, then in Employee's possession or work area, whether prepared by Employee or others, are the property of Flexsteel and shall be returned to Flexsteel upon Flexsteel's request.

SECTION TWO: NON-DISPARAGEMENT

The Employee agrees and covenants that the Employee will not at any time make, publish, or communicate to any person or entity or in any public forum any defamatory or disparaging remarks, comments, or statements concerning Flexsteel or its businesses, or its employees, officers and existing and prospective customers, suppliers and other associated third parties.

This section does not, in any way, restrict or impede the Employee from exercising protected rights to the extent that such rights cannot be waived by agreement, including but not limited to Employee's section 7 rights under the NLRA, or from complying with any applicable law or agency, provided that such compliance does not exceed that required by the law, regulation or order. The employee shall promptly provide such written notices of such order to Flexsteel's legal department.

SECTION THREE: NONCOMPETITION

- A. **Employee Conduct with Respect to Competitors.** During the term of Employee's employment by Flexsteel and for twelve (12) months after termination of such employment, Employee agrees that Employee will not, without the prior written consent of Flexsteel, directly or indirectly, whether as an employee, officer, director, independent contractor, consultant, stockholder, partner, or otherwise, engage in or assist others to engage in or have any interest in any business which competes with Flexsteel in any geographic area in which Flexsteel markets or has marketed its products during the year preceding termination.
- B. **Solicitation of Employees.** Employee agrees that during the term of Employee's employment and for twelve (12) months after the termination of such employment, Employee will not induce or attempt to induce any person who is an employee of Flexsteel to leave the employ of Flexsteel and engage in any business which competes with Flexsteel.
- C. **Maximum Restrictions of Time, Scope, and Geographic Area Intended.** The Parties agree and acknowledge that the time, scope and geographic area and other provisions of this Agreement are reasonable under these circumstances. Employee further agrees that if, despite the express agreement of the parties to this Agreement, a court is expressly authorized to modify any unenforceable provision of this Agreement in lieu of severing the unenforceable provision from this Agreement in its entirety, whether by rewriting the offending provision, or deleting any or all of the offending provision, adding additional language to this Agreement, or by making any other modifications as it deems warranted to carry out the intent and agreement of the Parties as embodied herein to the maximum extent as permitted by law. The Parties expressly agree that this Agreement as so modified by the court shall be binding upon and enforceable against each of them.



Flexsteel Industries, Inc.
 385 Bell Street
 Dubuque, IA 52001

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 F 563.556.8345
 www.flexsteel.com

SECTION FOUR: BREACH OF AGREEMENT

- A. **Remedies.** Employee agrees that violating Section One of this Agreement at any time, including during litigation, will produce damages and injury to Flexsteel. In the event of the breach or, or threatened breach by Employee of Section One of this Agreement, Flexsteel shall be entitled to seek injunctive relief, both preliminary and permanent, enjoining and restraining such breach or threatened breach. Such remedies shall be in addition to all other remedies available to Flexsteel in law or in equity, including by not limited to Flexsteel’s right to recover from Employee any and all damages that may be sustained as a result of Employee’s breach.
- B. **Agreement Survives Termination.** All rights of the Parties pursuant to this Agreement shall survive any termination.
- C. **Choice of Law.** The validity, interpretation, and performance of this Agreement shall be controlled and construed under the laws of Iowa.
- D. **Attorney’s Fees.** If an attorney shall be retained to interpret or enforce the provisions of this Agreement, the prevailing party shall be entitled to reasonable attorney fees, including any such fees set by the trial or appellate court upon trial or appeal.

SECTION FIVE: MISCELLANEOUS

- A. **Entire Agreement.** This Agreement contains all the understandings and representations between Employee and Flexsteel pertaining to the subject matter hereof and supersedes all prior and contemporaneous understandings, agreements and representations, both oral and written, with respect to such subject matter.
- B. **Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument. Delivery of an executed counterpart’s signature page of this Agreement by facsimile, email in portable document format (.pdf), or by any other electronic means intended to preserve the original graphic and pictorial appearance of a document, has the same effect as delivery of an executed original of this Agreement.

Nothing in this Agreement shall be construed to in any way terminate, supersede, undermine, or otherwise modify the “at-will” status of the employment relationship between Flexsteel and the Employee, pursuant to which either Flexsteel or the Employee may terminate the employment relationship at any time, with or without cause, and with or without notice.

EMPLOYEE

By: _____

Name: Jerald K. Dittmer
 Title: President/CEO
 Date: December 28, 2018

FLEXSTEEL INDUSTRIES, INC.

By: _____

Name: Thomas M. Levine
 Title: Chair of the Board
 Date: December 28, 2018

EXHIBIT B

Commitments and/or Investment

None.

FLEXSTEEL INDUSTRIES, INC.
NOTIFICATION OF NON-STATUTORY STOCK OPTION AWARD

Name of Optionee: Jerald K. Dittmer	
Effective Date: December 28, 2018	
Number of Shares Covered: 55,000	Date of Grant: December 28, 2018
Exercise Price Per Share: \$21.96	Expiration Date: December 28, 2028

Flexsteel Industries, Inc. (the “**Company**”) hereby grants you an option (the “**Option**”) under this Notification of Non-Statutory Stock Option Award (this “**Notification of Award**”) as an inducement grant. The Options granted under this Notification of Award are subject to the following terms and conditions:

- Omnibus Stock Plan.** The Option is not granted directly pursuant to the Company’s 2013 Omnibus Stock Plan (the “**Plan**”) (See Attachment C “Omnibus Stock Plan”). However, all applicable terms and conditions of the Plan will govern the Shares purchased or purchasable under the Option. Capitalized terms not otherwise defined within this Notification of Award shall have the respective meanings assigned to such terms in the Plan.
- Stock Option.** The Option is not intended to be an Incentive Stock Option within the meaning of Section 422 of the Internal Revenue Code (the “**Code**”).
- Purchase Price.** The purchase price of the Stock is the Exercise Price Per Share, which shall not be less than the Fair Market Value of the Stock on the Date of Grant.
- Expiration Date.** Unless the right to exercise the Option is terminated earlier under Section 8, the Option will expire on the Expiration Date. The Expiration Date shall not be more than ten years from the Date of Grant. You are solely responsible for exercising this Option, if at all, prior to its Expiration Date. The Company has no obligation to notify you of this Option’s expiration.
- Vesting.** The Shares under the Option shall vest pursuant to the following vesting schedule:

Shares	Date
18,333	July 1, 2019
18,333	July 1, 2020
18,334	July 1, 2021

In the event that a Change in Control (see Attachment A, “Definitions”) occurs while the Employee is employed by the Company, then the vesting schedule set forth above shall be automatically accelerated so that all Shares purchased or purchasable upon exercise of this Option shall become fully vested, effective as of the effective time of the Change in Control.

6. **Exercise Period.** The Option may only be exercised prior to the Expiration Date. Your right to exercise some or all of the Option may be terminated before the Expiration Date as provided in Section 8, relating to termination of your employment. In all cases, you may only exercise the Option to the extent the Option has vested as stated in the Notification of Award.
7. **Transferability.** The Option may be exercised during your lifetime only by you and any exercise must be prior to the Expiration Date. You may not transfer the Option, other than by will or the laws of descent and distribution.
8. **Termination of Employment.** All of your rights in this Option, to the extent not previously vested and exercised, shall terminate upon your termination of employment except as described in this Section 8. With respect to the vested and exercisable portion of the Option, and subject to subsection (f):
- (a) In the event of your termination of employment due to reasons other than death, Disability, Termination for Cause (see Attachment A, “Definitions”) or termination on or after your Retirement Date, the Option may be exercised (to the extent exercisable at the date of termination) by you within three months after the date of termination of employment.
 - (b) In the event of your termination of employment on or after your Retirement Date, the Option may be exercised (to the extent exercisable at the date of termination) by you within three years after the date of termination of employment.
 - (c) In the event of your termination of employment due to Disability, the Option may be exercised in full by you within one year after the date of termination of employment.
 - (d) In the event of your termination of employment due to death, the Option may be exercised in full by your estate or by a person who acquires the right to such Option by bequest or inheritance or otherwise by reason of your death, within one year after the date of termination of employment.
 - (e) In the event of your Termination for Cause, the Option and your right to exercise the Option shall terminate immediately.
 - (f) Notwithstanding anything in this Notification of Award, in no event may the Option be exercised after the Expiration Date.
9. **Method of Exercise; Use of Company Stock.**
- (a) The Option may be exercised by delivering written notice of exercise to the Company at the principal executive office of the Company, to the attention of the Company’s Secretary. The notice must state the number of Shares to be purchased, and must be signed by the person exercising the Option. If you are not the person exercising the Option, the person also must submit appropriate proof of his/her right to exercise the Option. The Company may designate a third party to administer the option program in which case the third party may receive any required notice.

(b) Upon giving notice of any exercise hereunder, you must provide for payment of the purchase price of the Shares being purchased through one or a combination of the following methods:

- (i) Purchase. By paying cash (including check paid to the Company, wire transfer, bank draft, or money order);
- (ii) Delivery of Shares. By delivery or tender to the Company of unencumbered Shares (by actual delivery or attestation) having an aggregate Fair Market Value on the date the Option is exercised equal to the purchase price of the Shares being purchased under the Option, or a combination thereof, as determined by the Committee (provided, however, that no fractional Shares will be issued or accepted);
- (iii) Broker-Assisted Cashless Exercise. By directing a stockbroker designated by the Company to affect a broker assisted cashless exercise to sell Shares issued on exercise of the Option and remitting the proceeds of such sale to the Company; or
- (iv) Net Exercise. By instructing the Company to withhold Shares having an aggregate Fair Market Value on the date of exercise less than or equal to the purchase price of the Shares acquired upon exercise; provided that this method of exercise may only be used to deliver net shares to you and no cash compensation may be provided.

In no event will you be permitted to pay any portion of the purchase price with Shares, through a broker-assisted cashless exercise or through net exercise, if the Committee, in its sole discretion, determines that payment in such manner could have adverse tax, securities law or financial accounting consequences for the Company.

10. **Withholding.** In any case where withholding is required or advisable under federal, state or local law in connection with any exercise by you under this Notification of Award, the Company is authorized to withhold appropriate amounts from amounts payable to you, or may require that you remit to the Company an amount equal to such appropriate amounts. Upon the exercise of the Option, you may elect, subject to the approval of the Committee and compliance with applicable laws and regulations, to satisfy any withholding requirements, in whole or in part, by having the Company withhold Stock having a Fair Market Value, on the date the tax is to be determined, equal to the standard required withholding rates for non-periodic payments. In no event will the Company be required to permit the exercise of the Option unless the applicable withholding requirements are satisfied.
11. **Changes in Capitalization, Dissolution, Liquidation, Reorganization, Acquisition.** The terms stated in the Notification of Award are subject to modification upon the occurrence of certain events as described in Section 16 of the Plan.
12. **Severability.** In the event any provision of this Notification of Award is held illegal or invalid for any reason, the illegality or invalidity will not affect the remaining parts of this Notification of Award, and the Notification of Award will be interpreted and enforced as if the illegal or invalid provision had not been included.
13. **No Guarantee of Employment.** The Notification of Award will in no way restrict the right of the Company to terminate your employment at any time.
14. **Tax Advice.** You acknowledge that you have not looked to or relied upon the Company or any of its officers, directors, optionees, shareholders, accountants or legal counsel for tax advice concerning the tax consequences of the grant to, and your exercise of, the Option and that you have obtained such advice, to the extent you determine that it is necessary, from other sources located by you.

15. **No Shareholder Rights.** You will have no rights as a shareholder with respect to any Stock subject to the Option prior to the date of exercise of the Option and, after such date, will only have rights as a shareholder with respect to the Stock acquired upon exercise.
16. **Governing Terms.** This Notification of Award is not made according to the provisions of the Plan. However, all applicable terms and conditions of the Plan will govern the Shares purchased or purchasable under the Option. The terms of the Plan are incorporated by reference in this Notification of Award. Terms used in this Notification of Award have the meanings used in the Plan unless the context clearly requires otherwise. The terms “termination of employment,” “terminate employment,” and similar terms shall mean “Separation from Service” as defined in the Plan. In the event of a conflict between the provisions of the Plan and the provisions of this Notification of Award, the provisions of this Notification of Award will govern.
17. **Resale Restrictions.** The terms of the Plan shall not restrict the resale of Stock acquired upon exercise of the Option. Resales by participants who are officers or directors of the Company must comply with (i) Rule 144 under the Securities Act of 1933, as amended, and (ii) the six-month short swing profit restrictions under Section 16(b) of the Securities Exchange Act of 1934, as amended. The Board of Directors of Flexsteel Industries, Inc. has adopted Stock Ownership Guidelines (see Attachment D “Stock Ownership Guidelines”). These guidelines are a part of this Notification of Award.
18. **Entire Understanding.** This Notification of Award constitutes the entire understanding of you and the Company with respect to the subject matter of this Notification of Award, and, except as otherwise provided in the Plan, may not be amended, changed, modified, terminated, or waived other than by written instrument signed by you and the Company. This Notification of Award supersedes all prior oral or written agreements and understandings between you and the Company concerning the subject matter of the Notification of Award, including any implied or express representations regarding your ownership of any interest in the Company or its property, and any prior oral or written agreements conveying stock option rights to you.
19. **Limitation on Rights; No Right to Future Grants; Extraordinary Item of Compensation.** By accepting the Option, you acknowledge that: (a) the grant of the Option is a one-time benefit that does not create any contractual or other right to receive future grants of options, or benefits in lieu of options; (b) all determinations with respect to any such future grants, including but not limited to, the times when options will be granted, the number of shares of Stock subject to each option, the Exercise Price Per Share, and the time or times when each option will be exercisable, will be at the sole discretion of the Company; (c) the value of the Option is an extraordinary item of compensation that is outside the scope of your employment agreement, if any, with the Company; (d) the Option is not part of normal or expected compensation for purposes of calculating any severance, resignation, redundancy, end of service payment, bonus, long-service award, pension or retirement benefit or similar payment; (e) the exercisability of the Option ceases upon termination of employment with the Company for any reason except as may otherwise be explicitly provided in the Plan or this Notification of Award or otherwise permitted by the Committee; (f) the future value of the Stock subject to the Option is unknown and cannot be predicted with certainty; and (g) if the Stock subject to the Option does not increase in value, the Option will have no value.

20. **Forfeiture and Repayment.** If you receive or become entitled to receive a payment under this Notification of Award within six months before your Separation from Service with the Company, the Company, in its sole discretion, may require you to forfeit or return the Award, as the case may be, in the event you: (a) engage in Competitive Activity at any time during your employment or within a two-year period after your Separation from Service or (b) engage in Improper Use of Confidential Information at any time. (See Attachment A, “Definitions.”) The Company also reserves the right to require you to pay back to the Company any amount received under the Award as described in Section 18 of the Plan. Further, in no event will you be entitled to an Award under this Notification of Award if you have a Termination for Cause at any time before the payment date of the Award. Any repayment due under this Section 20 or Section 18 of the Plan will be made by you either in the Shares, or in a dollar amount equal to the Fair Market Value of the Shares determined on the date of repayment, you received under the Award. The Committee, in its discretion, will determine which method of payment is acceptable. Further, in no event will you be entitled to an Award under this Notification of Award if you have a Termination for Cause at any time prior to the payment date.
21. **Beneficiary Designation.** If your employment is terminated as a result of your death, someone other than you may become entitled to exercise this Option, as provided in Section 8 of this Notification of Award. You are hereby permitted to designate a beneficiary to exercise the vested portion of this Option in the event of your death. Any beneficiary can be named and you may change your beneficiaries at any time by submitting such designation, in writing, to the Company. (See Attachment B, “Beneficiary Designation of Employee”)

[Signature Page to Follow]

FLEXSTEEL INDUSTRIES, INC.
NOTIFICATION OF NON-STATUTORY STOCK OPTION AWARD
ACKNOWLEDGEMENT

Name of Optionee: Jerald K. Dittmer	
Effective Date: December 28, 2018	Vesting Schedule: 18,333 shares July 1, 2019 18,333 shares July 1, 2020 18,334 shares July 1, 2021
Number of Shares Covered: 55,000	Date of Grant: December 28, 2018
Exercise Price Per Share: \$21.96	Expiration Date: December 28, 2028

FLEXSTEEL INDUSTRIES, INC.:

/s/ Marcus D. Hamilton

By: Marcus D. Hamilton
Its: Chief Financial Officer

Acknowledgement: Your receipt of this Notification of Award constitutes your agreement to be bound by the terms and conditions of this Notification of Award and the Plan.

OPTIONEE:

/s/ Jerald K. Dittmer

Jerald K. Dittmer

ATTACHMENT A

Definitions

The Capitalized terms used in this Notification of Award have the meanings set forth below.

“**Change in Control**” means any of the following but only if such event meets the definition of “change in control” for purposes of Section 409A of the Code):

- (i) Any individual, entity or group becomes a “Beneficial Owner” (as defined in Rule 13d-3 of the Securities Exchange Act of 1934, as amended), directly or indirectly, of at least thirty percent (30%) but less than fifty percent (50%) of the voting stock of the Company in a transaction that is not previously approved by the Board of Directors of the Company;
- (ii) Any individual, entity or group becomes a Beneficial Owner, directly or indirectly, of at least fifty percent (50%) of the voting stock of the Company;
- (iii) The person who were directors of the Company immediately prior to any contested election or series of contested elections, tender offer, exchange offer, merger, consolidation, other business combination, or any combination of the foregoing cease to constitute a majority of the members of the Board of Directors immediately following such occurrence;
- (iv) Any merger, consolidation, reorganization or other business combination where the individuals or entities who constituted the Company’s shareholders immediately prior to the combination will not immediately after the combination own at least fifty percent (50%) of the voting securities of the business resulting from the combination;
- (v) The sale, lease, exchange, or other transfer of all or substantially all the assets of the Company to any individual, entity or group not affiliated with the Company;
- (vi) The liquidation or dissolution of the Company; or
- (v) The occurrence of any other event by which the Company no longer operates as an independent public company.

“**Competitive Activity**” means any of the following regardless of whether it is undertaken, directly or indirectly, on your own behalf or on behalf of any person or entity other than the Company, including without limitation as a proprietor, principal, agent, partner, officer, director, stockholder, employee, member of any association, contractor, consultant or otherwise:

- (i) Engaging in any business activity, in any geographic market in which the Company is then engaged in business that is competitive with the business of the Company; or
- (ii) Hiring or soliciting for employment any person who is then an employee of the Company; or
- (iii) Inducing or attempting to induce any person to end his or her employment relationship with the Company; or
- (iv) Soliciting business concerning any business (as described in Section (i) above) from any person or entity who is, or who was, a client, customer, prospective client or prospective customer of the Company; or

- (v) Taking any action to divert business from, or inducing or attempting to induce any customer or prospective customer or any vendor, supplier or other business relation to cease doing business with the Company.

“Improper Use of Confidential Information” means:

- (i) Any use or disclosure of Confidential Information except as required for the performance of your duties as an employee of the Company;
- (ii) Any act or omission that directly or indirectly would materially reduce the value of Confidential Information except for such acts or omissions that are required for the performance of your duties as an employee of the Company.
- (iii) Notwithstanding anything in Sections (i) or (ii) above, Improper Use of Confidential Information does not include:
 - (A) any disclosure, use or other act or omission that is expressly authorized in writing, in advance by the Company; or
 - (B) any required disclosure of Confidential Information by law or legal process, if: (x) you provide prompt notice to the Company in writing, and prior to disclosing any Confidential Information, so that the Company may elect to seek an appropriate protective order to prevent disclosure at the Company’s option and expense; and (y) you cooperate with the Company in any efforts to seek a protective order.

For purposes of this definition, “Confidential Information” means any non-public information regarding the Company or any of its owners, directors, representatives, agents, employees, suppliers, vendors, shareholders, members, clients, customers, or other third parties or entities with whom the Company does business and which you have learned or developed in the past as a result of your employment by or association with the Company or which you learn or develop while providing services to the Company. Confidential Information includes, but is not limited to, trade secrets, information about customers, prospective customers, marketing strategies, business strategies, sales strategies, products, services, key personnel, suppliers, pricing, technology, computer software code, methods, processes, designs, research, development systems, techniques, finances, accounting, purchasing, forecasts, or planning. All information disclosed to you or to which you obtain access in whatever form, whether originated by you or by others, during the period that you provide services to the Company will be presumed to be Confidential Information if it is treated by the Company as being Confidential Information or if you have a reasonable basis to believe it to be Confidential Information. For these purposes, Confidential Information will not include knowledge or information: (i) that is now or subsequently becomes generally publicly known, other than as a direct or indirect result of Improper Use or Disclosure of Confidential Information by you; or (ii) that is independently made available to you in good faith by a third party who has not violated any legal duty or confidential relationship with the Company.

“Termination for Cause” means the involuntary termination of a Participant’s employment with the Company as a result of dishonesty, fraud, misappropriation of funds, theft relating to the Participant’s position, harassment, an act of violence, acts punishable by law, misconduct as described in the Flexsteel Industries, Inc. Employee Handbook, as amended from time to time, or such other serious misconduct as will be determined by the Company to constitute conduct that warrants forfeiture pursuant to the Plan and this Notification of Award.

ATTACHMENT B

FLEXSTEEL INDUSTRIES, INC.

NON-STATUTORY STOCK OPTION

BENEFICIARY DESIGNATION OF EMPLOYEE

Pursuant to the Notification of Non-Statutory Stock Option Award granted to me by Flexsteel Industries, Inc. (the “**Company**”) on December 28, 2018, I, Jerald K. Dittmer, hereby designate the following as beneficiary of any portion of my award which has been earned according to the terms of the Company’s 2013 Omnibus Stock Option Plan and unpaid at the time of my death.

A. Primary Beneficiary: _____

B. Contingent Beneficiary: _____

Signature: _____

Name: Jerald K. Dittmer

*This election is valid until a later dated designation is completed and filed with the Company.

ATTACHMENT C

FLEXSTEEL INDUSTRIES, INC.

OMNIBUS STOCK PLAN

Effective July 1, 2013

PURPOSE

The purpose of the Plan is to promote the interests of the Company and its shareholders by providing key personnel of the Company with an opportunity to acquire a proprietary interest in the Company and reward them for achieving a high level of corporate performance, and thereby develop a stronger incentive to put forth maximum effort for the continued success and growth of the Company. In addition, the opportunity to acquire a proprietary interest in the Company will aid in attracting and retaining key personnel of outstanding ability. The Plan is also intended to provide nonemployee directors with an opportunity to acquire a proprietary interest in the Company, to compensate nonemployee directors for their contribution to the Company and to aid in attracting and retaining nonemployee directors.

ELIGIBILITY

Participation in the Plan is limited to employees of the Company and to the members of the Board. The granting of awards under the Plan is solely at the discretion of the Nominating and Compensation Committee of the Board (the "**Committee**").

ADMINISTRATION OF THE PLAN

The Committee will administer the Plan. The Committee has exclusive power to (i) make awards, (ii) determine when and to whom awards will be granted, the form of each award, the amount of each award, and any other terms or conditions of each award consistent with the Plan, and (iii) determine whether, to what extent and under what circumstances, awards may be canceled, forfeited or suspended.

SHARES AVAILABLE UNDER THE PLAN

The number of shares of common stock available for distribution under the Plan may not exceed 700,000 (subject to adjustment for changes in capitalization of the Company). Any Shares subject to the terms and conditions of an award under the Plan that are not used because the terms and conditions of the award are not met may again be used for an Award under the Plan.

DESCRIPTION OF PLAN AWARDS

The Plan provides that the Committee may grant awards to participants in the form of (i) shares of common stock subject to restrictions on transfer and conditions of forfeiture, commonly referred to as "restricted stock," (ii) right to receive shares of common stock subject to restrictions and conditions for payment of shares are satisfied, commonly referred to as "restricted stock unit," (iii) "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code or non-statutory stock options, (iv) rights to receive a payment from the Company in Common Stock equal to the excess of the fair market value of a share of common stock on the date of exercise over a specified price fixed by the Committee, commonly referred to as "Stock Appreciation Rights" or "SARs," or (v) rights to receive payment from the Company in common stock based upon the achievement of performance goals established by the Committee, commonly known as "performance units."

Options. The Committee will have the authority to grant stock options and to determine all terms and conditions of each stock option, including a vesting schedule, if any. The Committee will fix the option price per share of Common Stock, which may not be less than the fair market value of the Common Stock on the date of grant. The Committee will determine terms and conditions of exercise, as well as the expiration date of each option, but the expiration date will not be later than 10 years after the grant date.

The option price is payable in full at the time of exercise, provided that to the extent permitted by law, the Notification of Award may permit the participants to simultaneously exercise options and sell the shares thereby acquired pursuant to a brokerage transaction and use the proceeds from the sale as payment of the purchase price of the shares, or exercise the option in a “net exercise,” by which the number of shares distributed to the participant is reduced by the aggregate purchase price of the shares being exercised divided by the then fair market value of a share. The purchase price may also be payable in cash or by delivery or tender of shares (by actual delivery or attestation) having a fair market value as of the date the option is exercised equal to the purchase price of the shares being exercised, or a combination thereof.

If the aggregate fair market value of the shares subject to the option that becomes exercisable during a calendar year exceeds \$100,000, then the option will be treated as a nonqualified stock option to the extent the \$100,000 limitation is exceeded. Each incentive stock option that the administrator grants to an eligible employee who owns more than ten percent of the total combined voting power of all classes of stock then issued by our company or a subsidiary must have an exercise price at least equal to 110% of the fair market value of the common stock on the date of grant and must terminate no later than five years after the date of grant.

Stock Appreciation Rights. The Committee will have the authority to grant stock appreciation rights. A stock appreciation right is the right of a participant to receive Common Stock with a fair market value, equal to the appreciation of the fair market value of a share of common stock during a specified period of time. The Committee will determine all terms and conditions of each stock appreciation right.

Performance and Stock Awards. The Committee will have the authority to grant awards of restricted stock or restricted stock units. Restricted stock means shares of common stock that are subject to a risk of forfeiture, restrictions on transfer or both a risk of forfeiture and restrictions on transfer. Restricted stock unit means the right to receive a payment shares equal to the fair market value of one share of Common Stock. The Committee will determine all terms and conditions of the awards.

PERFORMANCE GOALS

For purposes of the Plan, Performance Goals are the goals established for a given performance period, the achievement of which may be a condition for receiving an award under the Plan. A Performance Goal may be adjusted in accordance with Section 162(m) of the Internal Revenue Code during a Performance Period to prevent dilution or enlargement of an Award as a result of extraordinary events or circumstances as determined by the Committee or to exclude the effects of extraordinary, unusual or nonrecurring events, changes in accounting principles, discontinued operations, acquisitions, divestitures and material restructuring charges. Performance Goals may be based on one or more of the following criteria and may be based on attainment of a particular level of or positive change in consolidated (company-wide) or subsidiary, division or operating unit financial measures: (1) pre-tax or after-tax income (before or after allocation of corporate overhead and incentive compensation), (2) net income, (3) reduction in expenses, (4) operating income, (5) earnings (including earnings before taxes, earnings before interest and taxes, or earnings before interest, taxes, depreciation and amortization), (6) gross revenue, (7) working capital, (8) profit margin or gross profits, (9) share price, (10) cash flow, free cash flow or cash flow per share (before or after dividends), (11) cash flow return on investment, (12) return on capital (including return on total capital or return on invested capital), (13) return on assets or net assets, (14) market share, (15) pre-tax or after-tax earnings per share, (16) operating earnings per share, (17) total stockholder return, (18) growth measures, including revenue growth, as compared with a peer group or other benchmark, (19) economic value-added models or equivalent metrics, (20) comparisons with various stock market indices, (21) improvement in or attainment of expense levels or working capital levels, (22) operating margins, gross margins or cash margins, (23) year-end cash, (24) debt reductions, (25) stockholder equity, (26) regulatory achievements, (27) implementation, completion or attainment of measurable objectives with respect to research, development, products or projects, production volume levels, acquisitions and divestitures, (28) leadership, recruiting, developing and maintaining personnel, (29) customer satisfaction, (30) operating efficiency, productivity ratios, (31) strategic business criteria, consisting of one or more objectives based on meeting specified revenue, market penetration, geographic business expansion goals (including accomplishing regulatory approval for projects), cost or cost savings targets, accomplishing critical milestones for projects, and goals relating to acquisitions or divestitures, or any combination thereof (in each case before or after such objective income and expense allocations or adjustments as the Committee may specify within the applicable period).

AWARD LIMITS

To qualify awards under the Plan as “performance-based compensation” under Section 162(m), the Company is required to establish limits on the number of awards that may be granted to an individual participant. The maximum number of shares that may be awarded to a participant under the Plan in any fiscal year of the Company, by form of Award, is as follows: (a) restricted stock: 30,000 shares; (b) restricted stock units: 30,000 shares; (c) shares purchasable under options (including non-statutory stock options and incentive stock options): 30,000 shares; (d) shares with respect to which stock appreciation rights may be exercised: 30,000 shares; and (e) performance units: 30,000 shares. Each of these limitations is subject to adjustment for changes in capitalization of the Company.

FEDERAL TAX TREATMENT

The Plan is not a qualified pension, profit-sharing or stock bonus plan under Section 401(a) of the Code. The Plan is not subject to any provisions of the Employee Retirement Income Security Act of 1974.

The U.S. federal income tax consequences of the Plan under current federal law, which is subject to change, are summarized in the following discussion which deals with the general tax principles applicable to the Plan. This summary is not intended to be exhaustive and does not describe state, local or FICA tax consequences. The tax consequences to a participant depend on the type of award granted under the Plan.

Options. Stock option grants under the Plan may either be granted as incentive stock options, which are governed by Section 422, as amended, or as non-qualified stock options, which are governed by Section 83 of the Internal Revenue Code, as amended. Generally, no federal income tax is payable by the participant upon the grant of an incentive stock option and no deduction is taken by us. If certain holding periods are met, the exercise of an incentive stock option does not result in taxation to the participant; rather, the participant is taxed only at the time of sale of the shares received upon exercise. If the shares have been held for at least one year after the date of exercise and at least two years from the date of grant of the option, the participant will be taxed on any appreciation in excess of the exercise price as long-term capital gains. In that event, we are not entitled to a deduction for the amount of the capital gains. Under current tax laws, if a participant exercises a non-qualified stock option, the participant will be taxed on the difference between the fair market value of the stock on the exercise date and the exercise price and, thereafter, the participant would receive capital gains on any appreciation in stock value after the exercise date, depending upon the length of time the participant held the stock after exercise. When the option is exercised, we will be entitled to a corresponding tax deduction.

Restricted and Performance Stock and Units. Awards of restricted stock and restricted stock units, performance stock and performance units under the Plan generally are not subject to federal income tax when awarded, unless the participant properly elects to accelerate the tax recognition. Restricted stock is generally subject to ordinary income tax at the time the restrictions lapse and performance stock is taxed at the time the performance targets are met. Restricted stock units and performance units are generally subject to ordinary tax at the time of payment, even if vested earlier. We are entitled to a corresponding deduction at the time the participant recognizes taxable income on the restricted or performance stock or units.

Section 162(m) Limit on Deductibility of Compensation. Section 162(m) of the Internal Revenue Code limits the deduction the Company can take for compensation paid to our “Covered Employees” (as defined under Code Section 162(m)) to \$1,000,000 per year per individual. However, performance-based compensation that meets the requirements of Section 162(m) does not have to be included as part of the \$1,000,000 limit. The Plan is designed so that awards granted to the covered individuals may meet the Section 162(m) requirements for performance-based compensation.

Code Section 409A. Awards under the Plan may constitute, or provide for, a deferral of compensation under Section 409A of the Internal Revenue Code. If the requirements of Section 409A are not complied with, then holders of such awards may be taxed earlier than would otherwise be the case (e.g., at the time of vesting instead of the time of payment) and may be subject to an additional 20% penalty tax and, potentially, interest and penalties. The Plan has been designed to issue awards that comply with, or be exempt from Section 409A and the Department of Treasury regulations and other interpretive guidance that may be issued pursuant to Section 409A.

FORFEITURE AND CLAWBACK

The Company may provide that if a participant has received or been entitled to an award within six months before the participant’s termination of employment with the Company, the Committee may require the participant to return or forfeit the award in the event of certain occurrences specified in the award. The occurrences may, but need not, include termination for “cause” (as defined in the award or, if applicable, as defined in any employment agreement between the participant and the Company), competition with the Company, unauthorized disclosure of material proprietary information of the Company, a violation of applicable business ethics policies of the Company, a violations of applicable law, or any other occurrence specified in the award within the period or periods of time specified in the award. In addition, the Company reserves the right to require a participant to pay back to the Company all shares received under the Plan to the extent required by law, under any applicable listing standard or under any applicable clawback policy adopted by the Company.

CHANGE IN CONTROL

The Company may provide that an award under the Plan includes a provision for full vesting or a pro rata payment if a participant's employment terminates during a performance period in connection with a change in control.

EFFECTIVE DATE AND DURATION OF THE PLAN

The Plan became effective as of July 1, 2013, but subject to the shareholders' approval of the Plan at the 2013 Annual Meeting of Shareholders. The Plan will remain in effect until all Common Stock subject to it is distributed, all awards have expired or lapsed, or the Plan is terminated pursuant to its terms or June 30, 2023; provided, however, that awards made before the termination date may be exercised, vested or otherwise effectuated beyond the termination date unless limited in the agreement or otherwise. No award of an incentive stock option will be made more than 10 years after the effective date.

AMENDMENT AND MODIFICATION OF AWARDS UNDER THE PLAN

The Board may at any time and from time-to-time terminate, suspend or modify the Plan. The Committee may at any time alter or amend any or all agreements under the Plan to the extent permitted by law. No termination, suspension, or modification of the Plan will materially and adversely affect any right acquired by any participant under an award granted before the date of termination, suspension, or modification, unless otherwise agreed to by the participant in the agreement or otherwise, or required as a matter of law.

RESALE RESTRICTIONS

The resale of shares of Common Stock acquired upon exercise of awards granted under the Plan is generally not restricted by the terms of the Plan. Resales by participants who are officers or directors of the Company must comply with (i) Rule 144 under the Securities Act of 1933, as amended, and (ii) the six-month short swing profit restrictions under Section 16(b) of the Exchange Act.

ATTACHMENT D

STOCK OWNERSHIP GUIDELINES

Adopted July 22, 2016

The Board of Directors (the “Board”) of Flexsteel Industries, Inc. (“Flexsteel” or the “Company”) has adopted Stock Ownership Guidelines (“Ownership Guidelines”). These Ownership Guidelines are applicable to all Flexsteel Section 16 executive officers (“executive officers”) (as such term is defined pursuant to Section 16 of the Securities and Exchange Act of 1934, as amended), the non-employee directors of the Board (“directors”), other officers of the Company (“officers”), and all other employees that receive stock based compensation (“key associates”) in any form from the Company (collectively “participants”).

Ownership Guidelines

Pursuant to these Ownership Guidelines, each of the participants will be expected to maintain an ownership position in the Company’s shares of common stock as set forth in the applicable guidelines below:

Minimum Stock Ownership Requirement

<u>Leadership Position</u>	<u>Ownership Guidelines</u>
Directors of the Board	3 times annual director cash compensation
Executive Officers	2 times base salary
Officers	1 times base salary
Key Associates	0.5 times base salary

Ownership Defined

For purposes of meeting the applicable Ownership Guidelines, stock that counts toward satisfaction of Flexsteel’s Stock Ownership Guidelines include:

- Flexsteel Industries, Inc. common stock owned (i) directly by the participant or their spouse, (ii) jointly by the participant or their spouse, and (iii) indirectly by a trust, partnership, limited liability company or other entity for the benefit of the participant or their spouse;
- 100% of Restricted Stock Awards (vested and unvested) issued under the Company’s Equity Incentive Plans; and
- 100% of the intrinsic value of unexercised Stock Options (vested and unvested) issued under the Company’s Equity Plans.

Subject to the Retention Ratio requirements, there is no expected time period to achieve the minimum stock ownership requirement.

Retention Ratio

Participants must maintain at least 60% of the stock received from equity awarded (on a shares-issued basis) until minimum stock ownership requirement level is achieved.

Stock Holding Requirements

Once the Ownership Guideline has been achieved, participants will be required to maintain the stock holding requirement for the duration of their employment with or service to the Company.

Compliance

The Company's Compensation Committee (the "Committee") shall have authority to enforce these Stock Ownership Guidelines.

Non-Compliance

If a participant is not in compliance with the Ownership Guidelines, the participant will be prohibited from selling or otherwise disposing of the Flexsteel common stock until their holdings meet the applicable minimum requirements, and then only to the extent that their remaining holdings do not fall below the applicable minimum holding requirement.

Administration

The Committee shall periodically assess these Ownership Guidelines and recommend changes, if any, to the Board of Directors. The Board of Directors may amend or terminate these Ownership Guidelines in its discretion.

Hardship

There may be instances in which the Ownership Guidelines would place a severe hardship on the participant. Under these circumstances, the Committee may, on a case-by-case basis, modify the Ownership Guidelines, in its discretion.

**NOTIFICATION OF RESTRICTED STOCK AWARD
UNDER THE FLEXSTEEL INDUSTRIES, INC. OMNIBUS STOCK PLAN**

Name of Grantee: Jerald K. Dittmer	
Restricted Stock Award: 3,186 Shares	Grant Date: December 28, 2018

1. **Notification of Award.** Flexsteel Industries, Inc. (the “**Company**”), hereby grants to you (“**Employee**”) a Restricted Stock Award under this Notification of Award (the “**Notification of Award**”). The Restricted Stock Award represents the right to receive shares of common stock of the Company (the “**Shares**”) under the terms and conditions described in this Notification of Award and in the Company’s 2013 Omnibus Stock Plan (the “**Plan**”), provided upon request.
2. **Vesting.** The Employee’s rights in and to the number of Shares so indicated shall become vested upon the earliest of the following dates or events to occur:
 - a. On July 1, 2019, 531 shares shall vest if the Employee is employed and in good standing with the Company on such date;
 - b. On July 1, 2020, 1,062 shares shall vest if the Employee is employed and in good standing with the Company on such date;
 - c. On July 1, 2021, 1,062 shares shall vest if the Employee is employed and in good standing with the Company on such date;
 - d. On July 1, 2022, 531 shares shall vest if the Employee is employed and in good standing with the Company on such date;
 - e. On the date of the Employee’s death while employed with the Company all unvested Shares shall vest;
 - f. On the date the Employee is determined to be disabled under the Company’s long-term disability plan for entitlement to benefits thereunder (“**Disability**”) all unvested Shares shall vest; or
 - g. On the date of a Change in Control of the Company (See Attachment A “**Change in Control**”), if the Employee is employed and in good standing with the Company on that date all unvested Shares shall vest.
3. **Dividends.** During the period prior to vesting (as defined in Section 2 above), dividends will be paid quarterly on the unvested Shares unless such Shares have been forfeited hereunder. Dividends shall otherwise be considered a part of the Restricted Stock Award.

4. **Forfeiture Restriction.** In the event of Employee's cessation of employment with or service to the Company for any reason, except as a result of Employee's death, Disability, or a Change in Control, all of the Shares which have not vested pursuant to the vesting schedule set forth in Section 2 above shall thereupon be forfeited immediately and without any further action by the Company (the "**Forfeiture Restriction**"). Upon occurrence of such a forfeiture, the Company shall become the legal and beneficial owner of the unvested Shares and all rights and interests therein or relating thereto, and the Company shall have the right to retain and transfer to its own name the number of unvested Shares being forfeited by Employee. The unvested Shares and Employee's executed stock assignment (See Attachment B "**Stock Assignment**") to this Notification of Award shall be held by the Company in accordance with in accordance with Section 6 until the Shares are forfeited as provided in this Section 4, until such unvested Shares are fully released from the Forfeiture Restriction, or until such time as this Notification of Award is no longer in effect. Employee hereby authorizes and directs the Secretary of the Company, or such other person designated by the Company, to transfer the unvested Shares which have been forfeited pursuant to this Section 4 from Employee to the Company. The Company will provide to the Employee a separate Stock Assignment for each certificate of Shares.
5. **Release of Shares from Forfeiture Restriction.** The Shares shall be released from the Forfeiture Restriction in accordance with the vesting schedule set forth in Section 2 of this Notification of Award. Any of the Shares which, from time to time, have not yet been released from the Forfeiture Restriction are referred to herein as "Unreleased Shares." As soon as administratively practicable following the release of any Shares from the Forfeiture Restriction, the Company shall, as applicable, either deliver to the Employee the certificate or certificates representing such Shares in the Company's possession belonging to the Employee, or, if the Shares are held in book entry form, then the Company shall remove the notations on the book form. The Employee (or the beneficiary or personal representative of the Employee in the event of the Employee's death or incapacity, as the case may be) shall deliver to the Company any representations or other documents or assurances as the Company or its representatives deem necessary or advisable in connection with any such delivery.
6. **Escrow.** The Unreleased Shares and Employee's executed Stock Assignment shall be held by the Company until the Shares are forfeited as provided in Section 4, until such Unreleased Shares are fully released from the Forfeiture Restriction, or until such time as this Notification of Award no longer is in effect. In such event, Employee shall not retain physical custody of any certificates representing Unreleased Shares issued to Employee. Employee, by acceptance of this Notification of Award, shall be deemed to appoint, and does so appoint, the Company and each of its authorized representatives as Employee's attorney(s)-in-fact to effect any transfer of forfeited Unreleased Shares to the Company as may be required pursuant to the Plan or this Notification of Award, and to execute such representations or other documents or assurances as the Company or such representatives deem necessary or advisable in connection with any such transfer. The Company, or its designee, shall not be liable for any act it may do or omit to do with respect to holding the Shares in escrow and while acting in good faith an in the exercise of its judgment.

7. **Withholding Taxes.** The Company has the right to deduct and withhold any taxes due as a result of this Restricted Stock Award. The Company may, in its discretion, elect to withhold cash from other compensation payable to the Employee by the Company or withhold shares otherwise payable to you under this Notification of Award to satisfy applicable federal, state, and local withholding tax requirements with respect to the Restricted Stock Award and dividends. The Employee agrees to pay to the Company, when due, any amount necessary to satisfy applicable federal, state, and local withholding tax requirements with respect to the Restricted Stock Award and dividends. The Company will process payment of the amount determined under this Section 7 through the Employee's payroll along with applicable withholding taxes.
8. **Forfeiture and Clawback.** Forfeiture and Clawback provisions as provided for in the Plan apply to this Restricted Stock Award. See the Plan document and Attachment A "Competitive Activity" and "Improper Use of Confidential Information" definitions to this Notification of Award for more details.
9. **Employment of Employee.** Nothing in this Notification of Award shall be construed as constituting a commitment, guaranty, agreement or understanding of any kind or nature that the Company shall continue to employ the Employee, and this Notification of Award shall not affect in any way the right of the Company or its subsidiaries to terminate the employment of the Employee at any time for any reason. The Company shall have the right to reduce or recoup amounts due under the Notification of Award, but only to the extent such reduction or recoupment is specifically required by any federal or Minnesota law or regulation with respect to amounts due under this Notification of Award.
10. **Transferability.** The Employee shall not sell, transfer, pledge, assign or otherwise encumber any of the Restricted Stock Award, whether voluntarily, involuntarily or by operation of law. Any purported transfer, pledge or encumbrance of such Restricted Stock Award shall be void and unenforceable against the Company, and no purported transferee shall acquire any right or interest with respect to the Restricted Stock Award or the payment therefor as a result.
11. **Rights of Stockholder.** Except as otherwise provided in the Plan or this Notification of Award, upon issuance of the Shares by the Company, Employee shall have all of the rights of a stockholder with respect to said Shares, subject to the restrictions herein, including the right to vote the Shares and to receive all dividends or other distributions paid or made with respect to the Shares.

12. **Legends.** The certificate or certificates representing the Shares, if any, shall bear the following legend (as well as any legends required by applicable state and federal corporate and securities laws):

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO FORFEITURE IN FAVOR OF THE COMPANY AND MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH THE TERMS OF A RESTRICTED STOCK AWARD AGREEMENT BETWEEN THE COMPANY AND THE STOCKHOLDER, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

13. **Governing Law.** This Notification of Award shall be construed and enforced in accordance with the laws of the State of Minnesota, without regard to the principles of rules of any jurisdiction with respect to conflict of laws.
14. **Incorporation of Plan.** Except to the extent specifically provided in this Notification of Award, this grant shall be subject to and governed by the terms and conditions of the Plan, which shall be incorporated as though fully set forth herein. Capitalized terms not otherwise defined in this Notification of Award shall have the meaning set forth in the Plan. In the event of a conflict between the provisions of the Plan and the provisions of this Notification of Award, the provisions of the Plan will govern.
15. **Entire Notification of Award; Modification.** This Notification of Award sets forth all of the promises, conditions, understandings, warranties and representations between the parties with respect to the Restricted Stock Award, and there are no promises, agreements, conditions, understandings, warranties or representations, oral or written, express or implied, between the parties with respect to the Restricted Stock Award other than as set forth in this Notification of Award, the Plan and referenced and related attachments to the Plan. This Notification of Award is, and is intended by the parties to be, an integration of any and all prior agreements or understandings, oral or written, with respect to the Restricted Stock Award. Except as provided in Section 14, any change in, or modification of, this Agreement shall be valid only if in writing and signed by the parties to this Agreement.
16. **Notices.** Any and all notices provided for in this Notification of Award shall be addressed: (i) if to the Company, to the principal executive office of the Company to the attention of Secretary, and (ii) if to the Employee, to the address of the Employee as reflected in the records of the Company.
17. **Invalid or Unenforceable Provisions.** The invalidity or unenforceability of any particular provisions of this Notification of Award shall not affect the other provisions, and this Notification of Award shall be construed in all respects as if that invalid or unenforceable provision were omitted.

18. **Acknowledgment.** Your receipt of this Notification of Award constitutes your agreement to be bound by the terms and conditions of this Notification of Award and the Plan.

IN WITNESS WHEREOF, the Company and the Employee have executed this Notification of Award to be effective as of the Grant Date.

FLEXSTEEL INDUSTRIES, INC.:

/s/ Marcus D. Hamilton

By: Marcus D. Hamilton

Its: Chief Financial Officer

EMPLOYEE:

/s/ Jerald K. Dittmer

By: Jerald K. Dittmer

Restricted Stock Award
Flexsteel Industries, Inc.

ATTACHMENT A

Definitions

The Capitalized terms used in this Notification of Award have the meanings set forth below.

“Cause” means:

- (i) The willful and continued failure of the Employee to perform substantially the Employee’s duties as established from time to time by the Company’s management (other than any such failure resulting from death or disability), after a written demand for substantial performance is delivered to the Employee by the Company’s management that specifically identifies the manner in which the management believes that the Employee has not substantially performed the Employee’s duties; or
- (ii) The willful engaging by the Employee in illegal conduct or misconduct as described in the Flexsteel Industries, Inc. Employee Handbook, as amended from time to time, or gross misconduct that is materially and demonstrably injurious to the Company as determined by the Company to constitute conduct that warrants forfeiture pursuant to the Plan and this Notification of Award.

For purposes of this definition, no act, or failure to act, on the part of the Employee shall be considered “willful” unless it is done, or omitted to be done, by the Employee in bad faith or without reasonable belief that the Employee’s action or omission was in the best interests of the Company. Any act, failure to act, based on (i) authority given pursuant to resolution duly adopted by the Board, or (ii) the advice of counsel for the Company shall be conclusively presumed to be done or omitted to be done, by the Employee in good faith and in the best interests of the Company.

“Change in Control” means any of the following (but only if such event meets the definition of “change in control” for purposes of Section 409A of the Code):

- (i) Any individual, entity or group becomes a “Beneficial Owner” (as defined in Rule 13d-3 of the Securities Exchange Act of 1934, as amended), directly or indirectly, of at least thirty percent (30%) but less than fifty percent (50%) of the voting stock of the Company in a transaction that is not previously approved by the Board of Directors of the Company;
- (ii) Any individual, entity or group becomes a Beneficial Owner, directly or indirectly, of at least fifty percent (50%) of the voting stock of the Company;
- (iii) The person who were directors of the Company immediately prior to any contested election or series of contested elections, tender offer, exchange offer, merger, consolidation, other business combination, or any combination of the foregoing cease to constitute a majority of the members of the Board of Directors immediately following such occurrence;

- (iv) Any merger, consolidation, reorganization or other business combination where the individuals or entities who constituted the Company's shareholders immediately prior to the combination will not immediately after the combination own at least fifty percent (50%) of the voting securities of the business resulting from the combination;
- (v) The sale, lease, exchange, or other transfer of all or substantially all the assets of the Company to any individual, entity or group not affiliated with the Company;
- (vi) The liquidation or dissolution of the Company; or
- (vii) The occurrence of any other event by which the Company no longer operates as an independent public company.

“Competitive Activity” means any of the following regardless of whether it is undertaken, directly or indirectly, on your own behalf or on behalf of any person or entity other than the Company, including, without limitation as a proprietor, principal, agent, partner, officer, director, stockholder, employee, member of any association, contractor, consultant or otherwise:

- (i) Engaging in any business activity, in any geographic market in which the Company is then engaged in business that is competitive with the business of the Company
- (ii) Hiring or soliciting for employment any person who is then an employee of the Company;
- (iii) Inducing or attempting to induce any person to end his or her employment relationship with the Company;
- (iv) Soliciting business concerning any business (as described in Section (i) above) from any person or entity who is, or who was, a client, customer, prospective client or prospective customer of the Company; or
- (v) Taking any action to divert business from, or inducing or attempting to induce any customer or prospective customer or any vendor, supplier or other business relation to cease doing business with the Company.

“Improper Use of Confidential Information” means:

- (i) Any use or disclosure of Confidential Information except as required for the performance of the Employee's duties as an employee of the Company;
- (ii) Any act or omission that directly or indirectly would materially reduce the value of Confidential Information except for such acts or omissions that are required for the performance of the Employee's duties as an employee of the Company.

(iii) Notwithstanding anything in Sections (i) or (ii) above, Improper Use of Confidential Information does not include:

- (A) any disclosure, use or other act or omission that is expressly authorized in writing, in advance by the Company; or
- (B) any required disclosure of Confidential Information by law or legal process, if: (x) the Employee provides prompt notice to the Company in writing, and prior to disclosing any Confidential Information, so that the Company may elect to seek an appropriate protective order to prevent disclosure at the Company's option and expense; and (y) the Employee cooperates with the Company in any efforts to seek a protective order.

For purposes of this definition, "Confidential Information" means any non-public information regarding the Company or any of its owners, directors, representatives, agents, employees, suppliers, vendors, shareholders, members, clients, customers, or other third parties or entities with whom the Company does business and which the Employee has learned or developed in the past as a result of Employee's employment by or association with the Company or which the Employee learns or develops while providing services to the Company. Confidential Information includes, but is not limited to, trade secrets, information about customers, prospective customers, marketing strategies, business strategies, sales strategies, products, services, key personnel, suppliers, pricing, technology, computer software code, methods, processes, designs, research, development systems, techniques, finances, accounting, purchasing, forecasts, or planning. All information disclosed to the Employee or to which the Employee obtains access in whatever form, whether originated by the Employee or by others, during the period that the Employee provides services to the Company will be presumed to be Confidential Information if it is treated by the Company as being Confidential Information or if the Employee has a reasonable basis to believe it to be Confidential Information. For these purposes, Confidential Information will not include knowledge or information: (i) that is now or subsequently becomes generally publicly known, other than as a direct or indirect result of Improper Use or Disclosure of Confidential Information by an Employee; or (ii) that is independently made available to the Employee in good faith by a third party who has not violated any legal duty or confidential relationship with the Company.

"Involuntary Termination" has the meaning set forth in U.S. Treasury Regulation § 1.409A-1(n). Generally, this means that the Company has terminated your employment under circumstances where you have not initiated or requested the termination and you are willing and able to continue your employment. An "involuntary termination," for these purposes, also includes your separation from service due to "good reason" if your separation occurs due to a material diminution in your base compensation; a material diminution of your authority, duties or responsibilities; or a material change in the geographic location at which you must perform services. In order for a separation from service to be considered a "good reason" separation from service, you must provide a written notice to the Company of the existence of the condition within a 30-day period following the initial existence of the condition, upon which the Company must be provided a period of at least 90 days during which it may remedy the condition.

ATTACHMENT B

STOCK ASSIGNMENT

FOR VALUE RECEIVED, the undersigned, _____, hereby sells, assigns and transfers unto FLEXSTEEL INDUSTRIES, INC. (the “Company”), a Minnesota corporation, _____ shares of the Company’s common stock, standing in its name of the books of the Company represented by Certificate No. _____ herewith and do hereby irrevocably constitute and appoint _____ to transfer the said stock on the books of the Company with full power of substitution on the premises.

This Stock Assignment may be used only in accordance with the Notification of Restricted Stock Award between the Company and the undersigned dated December 28, 2018.

Jerald K. Dittmer

INSTRUCTIONS: Please do not fill in the blanks other than the signature line. The purpose of this assignment is to enable the Company to enforce the Forfeiture Restriction as set forth in the Notification of Restricted Stock Award, without requiring additional signatures on the part of the Employee.

Restricted Stock Award
Flexsteel Industries, Inc.

[DATE]

[PARTICIPANT NAME]

[ADDRESS]

Dear [PARTICIPANT NAME]:

Flexsteel Industries, Inc. is pleased to extend to you this Award of Nonqualified Stock Options (“NSOs”) under the Omnibus Stock Plan. The details of your Award are contained in the Notification of Award attached to this letter.

As described in the Notification of Award, you are entitled to purchase Company Shares at the Exercise Price Per Share, and according to the other terms, described in the Notification of Award.

Sincerely,

Jerald K. Dittmer
President & Chief Executive Officer

Attachments

**NOTIFICATION OF NON-STATUTORY STOCK OPTION AWARD
UNDER THE FLEXSTEEL INDUSTRIES, INC. OMNIBUS STOCK PLAN**

Name of Optionee:	
Effective Date:	
Number of Shares Covered:	Date of Grant:
Exercise Price Per Share:	Expiration Date:

Flexsteel Industries, Inc. (the “**Company**”) hereby grants you an option (the “**Option**”) under this Notification of Non-Statutory Stock Option Award (this “**Notification of Award**”), under the Flexsteel Industries Inc. Omnibus Stock Plan (the “**Plan**”). (See Attachment C, “Omnibus Stock Plan.”) The Options granted under this Notification of Award are subject to the following terms and conditions:

1. **Stock Option.** The Option is not intended to be an Incentive Stock Option within the meaning of Section 422 of the Internal Revenue Code (the “**Code**”).
2. **Purchase Price.** The purchase price of the Stock is the Exercise Price Per Share, which shall not be less than the Fair Market Value of the Stock on the Date of Grant.
3. **Expiration Date.** Unless the right to exercise the Option is terminated earlier under Section 7, the Option will expire on the Expiration Date. The Expiration Date shall not be more than ten years from the Date of Grant. You are solely responsible for exercising this Option, if at all, prior to its Expiration Date. The Company has no obligation to notify you of this Option’s expiration.
4. **Vesting.** The Shares under the Option shall vest pursuant to the following vesting schedule:

Shares	Date

In the event that a Change in Control (see Attachment A, "Definitions") occurs, then the vesting schedule set forth above shall be automatically accelerated so that all Shares purchased or purchasable upon exercise of this Option shall become fully vested, effective as of the effective time of the Change in Control.

5. **Exercise Period.** The Option may only be exercised prior to the Expiration Date. Your right to exercise some or all of the Option may be terminated before the Expiration Date as provided in Section 7, relating to termination of your employment. In all cases, you may only exercise the Option to the extent the Option has vested as stated in the Notification of Award.
6. **Transferability.** The Option may be exercised during your lifetime only by you and any exercise must be prior to the Expiration Date. You may not transfer the Option, other than by will or the laws of descent and distribution.
7. **Termination of Employment.** All of your rights in this Option, to the extent not previously vested and exercised, shall terminate upon your termination of employment except as described in this Section 7. With respect to the vested and exercisable portion of the Option, and subject to subsection (f):
 - (a) In the event of your termination of employment due to reasons other than death, Disability, Termination for Cause (see Attachment A, "Definitions") or termination on or after your Retirement Date, the Option may be exercised (to the extent exercisable at the date of termination) by you within three months after the date of termination of employment.
 - (b) In the event of your termination of employment on or after your Retirement Date, the Option may be exercised (to the extent exercisable at the date of termination) by you within three years after the date of termination of employment.
 - (c) In the event of your termination of employment due to Disability, the Option may be exercised in full by you within one year after the date of termination of employment.
 - (d) In the event of your termination of employment due to death, the Option may be exercised in full by your estate or by a person who acquires the right to such Option by bequest or inheritance or otherwise by reason of your death, within one year after the date of termination of employment.
 - (e) In the event of your Termination for Cause, the Option and your right to exercise the Option shall terminate immediately.
 - (f) Notwithstanding anything in this Notification of Award, in no event may the Option be exercised after the Expiration Date.

8. **Method of Exercise; Use of Company Stock.**

(a) The Option may be exercised by delivering written notice of exercise to the Company at the principal executive office of the Company, to the attention of the Company's Secretary. The notice must state the number of Shares to be purchased, and must be signed by the person exercising the Option. If you are not the person exercising the Option, the person also must submit appropriate proof of his/her right to exercise the Option. The Company may designate a third party to administer the option program in which case the third party may receive any required notice.

(b) Upon giving notice of any exercise hereunder, you must provide for payment of the purchase price of the Shares being purchased through one or a combination of the following methods:

(i) Purchase. By paying cash (including check paid to the Company, wire transfer, bank draft, or money order);

(ii) Delivery of Shares. By delivery or tender to the Company of unencumbered Shares (by actual delivery or attestation) having an aggregate Fair Market Value on the date the Option is exercised equal to the purchase price of the Shares being purchased under the Option, or a combination thereof, as determined by the Committee (provided, however, that no fractional Shares will be issued or accepted);

(iii) Broker-Assisted Cashless Exercise. By directing a stockbroker designated by the Company to affect a broker assisted cashless exercise to sell Shares issued on exercise of the Option and remitting the proceeds of such sale to the Company; or

(iv) Net Exercise. By instructing the Company to withhold Shares having an aggregate Fair Market Value on the date of exercise less than or equal to the purchase price of the Shares acquired upon exercise; provided that this method of exercise may only be used to deliver net shares to you and no cash compensation may be provided.

In no event will you be permitted to pay any portion of the purchase price with Shares, through a broker-assisted cashless exercise or through net exercise, if the Committee, in its sole discretion, determines that payment in such manner could have adverse tax or financial accounting consequences for the Company.

9. **Withholding.** In any case where withholding is required or advisable under federal, state or local law in connection with any exercise by you under this Notification of Award, the Company is authorized to withhold appropriate amounts from amounts payable to you, or may require that you remit to the Company an amount equal to such appropriate amounts. Upon the exercise of the Option, you may elect, subject to the approval of the Committee and compliance with applicable laws and regulations, to satisfy any withholding requirements, in whole or in part, by having the Company withhold Stock having a Fair Market Value, on the date the tax is to be determined, equal to the standard required withholding rates for non-periodic payments. In no event will the Company be required to permit the exercise of the Option unless the applicable withholding requirements are satisfied.

10. **Changes in Capitalization, Dissolution, Liquidation, Reorganization, Acquisition.** The terms stated in the Notification of Award are subject to modification upon the occurrence of certain events as described in Section 16 of the Plan.
11. **Severability.** In the event any provision of this Notification of Award is held illegal or invalid for any reason, the illegality or invalidity will not affect the remaining parts of this Notification of Award, and the Notification of Award will be interpreted and enforced as if the illegal or invalid provision had not been included.
12. **No Guarantee of Employment.** The Notification of Award will in no way restrict the right of the Company to terminate your employment at any time.
13. **Tax Advice.** You acknowledge that you have not looked to or relied upon the Company or any of its officers, directors, optionees, shareholders, accountants or legal counsel for tax advice concerning the tax consequences of the grant to, and your exercise of, the Option and that you have obtained such advice, to the extent you determine that it is necessary, from other sources located by you.
14. **No Shareholder Rights.** You will have no rights as a shareholder with respect to any Stock subject to the Option prior to the date of exercise of the Option and, after such date, will only have rights as a shareholder with respect to the Stock acquired upon exercise.
15. **Governing Terms.** This Notification of Award is made according to the provisions of the Plan. The terms of the Plan are incorporated by reference in this Notification of Award. Terms used in this Notification of Award have the meanings used in the Plan unless the context clearly requires otherwise. The terms “termination of employment,” “terminate employment,” and similar terms shall mean “Separation from Service” as defined in the Plan. In the event of a conflict between the provisions of the Plan and the provisions of this Notification of Award, the provisions of the Plan will govern.
16. **Resale Restrictions.** The resale of Stock acquired upon exercise of awards granted under the Plan is generally not restricted by the terms of the Plan. Resales by participants who are officers or directors of the Company must comply with (i) Rule 144 under the Securities Act of 1933, as amended, and (ii) the six-month short swing profit restrictions under Section 16(b) of the Securities Exchange Act of 1934, as amended. The Board of Directors of Flexsteel Industries, Inc. has adopted Stock Ownership Guidelines (see Attachment D “Stock Ownership Guidelines”). These guidelines are a part of this Notification of Award.

17. **Entire Understanding.** This Notification of Award constitutes the entire understanding of you and the Company with respect to the subject matter of this Notification of Award, and, except as otherwise provided in the Plan, may not be amended, changed, modified, terminated, or waived other than by written instrument signed by you and the Company. This Notification of Award supersedes all prior oral or written agreements and understandings between you and the Company concerning the subject matter of the Notification of Award, including any implied or express representations regarding your ownership of any interest in the Company or its property, and any prior oral or written agreements conveying stock option rights to you.
18. **Limitation on Rights; No Right to Future Grants; Extraordinary Item of Compensation.** By accepting the Option, you acknowledge that: (a) the Plan is discretionary in nature and may be suspended or terminated by the Company at any time; (b) the grant of the Option is a one-time benefit that does not create any contractual or other right to receive future grants of options, or benefits in lieu of options; (c) all determinations with respect to any such future grants, including but not limited to, the times when options will be granted, the number of shares of Stock subject to each option, the Exercise Price Per Share, and the time or times when each option will be exercisable, will be at the sole discretion of the Company; (d) your participation in the Plan is voluntary; (e) the value of the Option is an extraordinary item of compensation that is outside the scope of your employment agreement, if any, with the Company; (f) the Option is not part of normal or expected compensation for purposes of calculating any severance, resignation, redundancy, end of service payment, bonus, long-service award, pension or retirement benefit or similar payment; (g) the exercisability of the Option ceases upon termination of employment with the Company for any reason except as may otherwise be explicitly provided in the Plan or this Notification of Award or otherwise permitted by the Committee; (h) the future value of the Stock subject to the Option is unknown and cannot be predicted with certainty; and (i) if the Stock subject to the Option does not increase in value, the Option will have no value.
19. **Forfeiture and Repayment.** If you receive or become entitled to receive a payment under this Notification of Award within six months before your Separation from Service with the Company, the Company, in its sole discretion, may require you to forfeit or return the Award, as the case may be, in the event you: (a) engage in Competitive Activity at any time during your employment or within a two-year period after your Separation from Service or (b) engage in Improper Use of Confidential Information at any time. (See Attachment A, "Definitions.") The Company also reserves the right to require you to pay back to the Company any amount received under the Award as described in Section 18 of the Plan. Further, in no event will you be entitled to an Award under this Notification of Award if you have a Termination for Cause at any time before the payment date of the Award. Any repayment due under this Section 17 or Section 18 of the Plan will be made by you either in the Shares, or in a dollar amount equal to the Fair Market Value of the Shares determined on the date of repayment, you received under the Award. The Committee, in its discretion, will determine which method of payment is acceptable. Further, in no event will you be entitled to an Award under this Notification of Award if you have a Termination for Cause at any time prior to the payment date.

20. **Beneficiary Designation.** If your employment is terminated as a result of your death, someone other than you may become entitled to exercise this Option, as provided in Section 7 of this Notification of Award. The Plan permits you to designate a beneficiary to exercise the vested portion of this Option in the event of your death. Any beneficiary can be named and you may change your beneficiaries at any time by submitting such designation, in writing, to the Company. (See Attachment B, "Beneficiary Designation of Employee")

FLEXSTEEL INDUSTRIES, INC.:

By: _____
Its: _____

OPTIONEE:

[NAME]

ATTACHMENT A

Definitions

The Capitalized terms used in this Notification of Award have the meanings set forth below.

“**Change in Control**” means any of the following but only if such event meets the definition of “change in control” for purposes of Section 409A of the Code):

- (i) Any individual, entity or group becomes a “Beneficial Owner” (as defined in Rule 13d-3 of the Securities Exchange Act of 1934, as amended), directly or indirectly, of at least thirty percent (30%) but less than fifty percent (50%) of the voting stock of the Company in a transaction that is not previously approved by the Board of Directors of the Company;
- (ii) Any individual, entity or group becomes a Beneficial Owner, directly or indirectly, of at least fifty percent (50%) of the voting stock of the Company;
- (iii) The person who were directors of the Company immediately prior to any contested election or series of contested elections, tender offer, exchange offer, merger, consolidation, other business combination, or any combination of the foregoing cease to constitute a majority of the members of the Board of Directors immediately following such occurrence;
- (iv) Any merger, consolidation, reorganization or other business combination where the individuals or entities who constituted the Company’s shareholders immediately prior to the combination will not immediately after the combination own at least fifty percent (50%) of the voting securities of the business resulting from the combination;
- (v) The sale, lease, exchange, or other transfer of all or substantially all the assets of the Company to any individual, entity or group not affiliated with the Company;
- (vi) The liquidation or dissolution of the Company; or
- (v) The occurrence of any other event by which the Company no longer operates as an independent public company.

“**Competitive Activity**” means any of the following regardless of whether it is undertaken, directly or indirectly, on your own behalf or on behalf of any person or entity other than the Company, including without limitation as a proprietor, principal, agent, partner, officer, director, stockholder, employee, member of any association, contractor, consultant or otherwise:

- (i) Engaging in any business activity, in any geographic market in which the Company is then engaged in business that is competitive with the business of the Company; or
- (ii) Hiring or soliciting for employment any person who is then an employee of the Company; or

- (iii) Inducing or attempting to induce any person to end his or her employment relationship with the Company; or
- (iv) Soliciting business concerning any business (as described in Section (i) above) from any person or entity who is, or who was, a client, customer, prospective client or prospective customer of the Company; or
- (v) Taking any action to divert business from, or inducing or attempting to induce any customer or prospective customer or any vendor, supplier or other business relation to cease doing business with the Company.

“Improper Use of Confidential Information” means:

- (i) Any use or disclosure of Confidential Information except as required for the performance of your duties as an employee of the Company;
- (ii) Any act or omission that directly or indirectly would materially reduce the value of Confidential Information except for such acts or omissions that are required for the performance of your duties as an employee of the Company.
- (iii) Notwithstanding anything in Sections (i) or (ii) above, Improper Use of Confidential Information does not include:
 - (A) any disclosure, use or other act or omission that is expressly authorized in writing, in advance by the Company; or
 - (B) any required disclosure of Confidential Information by law or legal process, if: (x) you provide prompt notice to the Company in writing, and prior to disclosing any Confidential Information, so that the Company may elect to seek an appropriate protective order to prevent disclosure at the Company’s option and expense; and (y) you cooperate with the Company in any efforts to seek a protective order.

For purposes of this definition, “Confidential Information” means any non-public information regarding the Company or any of its owners, directors, representatives, agents, employees, suppliers, vendors, shareholders, members, clients, customers, or other third parties or entities with whom the Company does business and which you have learned or developed in the past as a result of your employment by or association with the Company or which you learn or develop while providing services to the Company. Confidential Information includes, but is not limited to, trade secrets, information about customers, prospective customers, marketing strategies, business strategies, sales strategies, products, services, key personnel, suppliers, pricing, technology, computer software code, methods, processes, designs, research, development systems, techniques, finances, accounting, purchasing, forecasts, or planning. All information disclosed to you or to which you obtain access in whatever form, whether originated by you or by others, during the period that you provide services to the Company will be presumed to be Confidential Information if it is treated by the Company as being Confidential Information or if you have a reasonable basis to believe it to be Confidential Information. For these purposes, Confidential Information will not include knowledge or information: (i) that is now or subsequently becomes generally publicly known, other than as a direct or indirect result of Improper Use or Disclosure of Confidential Information by you; or (ii) that is independently made available to you in good faith by a third party who has not violated any legal duty or confidential relationship with the Company.

“**Termination for Cause**” means the involuntary termination of a Participant’s employment with the Company as a result of dishonesty, fraud, misappropriation of funds, theft relating to the Participant’s position, harassment, an act of violence, acts punishable by law, misconduct as described in the Flexsteel Industries, Inc. Employee Handbook, as amended from time to time, or such other serious misconduct as will be determined by the Company to constitute conduct that warrants forfeiture pursuant to the Plan and this Notification of Award.

ATTACHMENT B
FLEXSTEEL INDUSTRIES, INC.
OMNIBUS STOCK PLAN
NON-QUALIFIED STOCK OPTION
BENEFICIARY DESIGNATION OF EMPLOYEE

Under the Flexsteel Industries, Inc. Omnibus Stock Plan, I, _____, hereby designate the following as beneficiary of any portion of my award which has been earned according to the terms of the Plan and unpaid at the time of my death.

A. Primary Beneficiary: _____

B. Contingent Beneficiary: _____

Signature: _____

Name: _____

Date: _____

*This election is valid until a later dated designation is completed and filed with the Company.

ATTACHMENT C
FLEXSTEEL INDUSTRIES, INC.
OMNIBUS STOCK PLAN

ATTACHMENT D
STOCK OWNERSHIP GUIDELINES

CERTIFICATION

I, Jerald K. Dittmer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Flexsteel Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any changes in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit and Ethics Committee of the Registrant's Board of Directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: February 6, 2019

By: /s/ Jerald K. Dittmer
 Jerald K. Dittmer

Chief Executive Officer

CERTIFICATION

I, Marcus D. Hamilton, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Flexsteel Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any changes in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit and Ethics Committee of the Registrant's Board of Directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: February 6, 2019

By: /s/ Marcus D. Hamilton
 Marcus D. Hamilton
 Chief Financial Officer

CERTIFICATION BY
CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Flexsteel Industries, Inc. (the "Company") on Form 10-Q for the quarter ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Jerald K. Dittmer, Chief Executive Officer, and Marcus D. Hamilton, Chief Financial Officer, of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and;
- (2) The information contained in the Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company.

Date: February 6, 2019

By: /s/ Jerald K. Dittmer
Jerald K. Dittmer
Chief Executive Officer

By: /s/ Marcus D. Hamilton
Marcus D. Hamilton
Chief Financial Officer