

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

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported) December 10, 2007

FLEXSTEEL INDUSTRIES, INC.  
(Exact name of registrant as specified in its charter)

Minnesota  
(State or other jurisdiction  
of incorporation)

0-5151  
(Commission  
File Number)

42-0442319  
(IRS Employer  
Identification No.)

3400 Jackson Street, Dubuque, Iowa  
(Address of principal executive offices)

52001  
(Zip Code)

Registrant's telephone number, including area code 563-556-7730

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(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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**Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.**

**(e) Adoption of 2007 Long-Term Management Incentive Compensation Plan**

On December 10, 2007, the shareholders of Flexsteel Industries, Inc. (the "Company") approved the adoption of the 2007 Long-Term Management Incentive Compensation Plan (the "2007 plan"). Adoption of the 2007 plan had been recommended by the Nominating and Compensation Committee and adopted by the Board of Directors on June 4, 2007, subject to shareholder approval at the Company's 2007 annual shareholders' meeting. The 2007 plan will be administered by the Nominating and Compensation Committee. The Plan will terminate by action of the Board of Directors or the Nominating and Compensation Committee, or ten years from its effective date. Any awards granted prior to the termination of the 2007 plan will continue to be in effect in accordance with the terms of the 2007 plan.

Executives and key employees, a group consisting of approximately 10 persons including the Company's Chief Executive Officer, Chief Financial Officer, Senior Vice President Vehicle Seating, Senior Vice President Marketing and President and Chief Executive Officer of DMI Furniture, Inc., are eligible to participate in the 2007 plan as determined in the sole discretion of the Nominating and Compensation Committee. A total of 500,000 shares of the Company's common stock are reserved for issuance under the 2007 plan. To be eligible for an award under the 2007 plan for a given performance period, a participant must remain in the Company's employment for the entire performance period and through the date of payout. A newly hired employee is eligible to participate in the 2007 plan subject to certain limitations.

If a participant terminates employment with the Company due to death, disability or retirement, the participant will receive pro-rated awards for all active performance periods based on actual performance as of the nearest calculable date. In the event of retirement, any awards will be contingent upon required severance agreements. All awards not yet paid under the 2007 plan will be canceled for a participant who terminates employment with the Company as a result of a voluntary termination, an involuntary termination without cause, or a termination for cause, in each case as defined in the 2007 plan, or certain resignations specified in the 2007 plan. The participant will have no further rights or interests in a canceled award or payments.

Long-term incentive awards will be based on one or more of the performance measures specified in the 2007 plan for each performance period. For the two-year transitional performance period beginning July 1, 2008 and ending June 30, 2009 and the three-year performance period beginning on July 1, 2008 and ending on June 30, 2010, the Nominating and Compensation Committee has selected the Company's consolidated operating results for organic net sales growth and fully-diluted earnings per share (each as defined in the 2007 plan). The Nominating and Compensation Committee can modify the measures it has selected for the two-year transitional and three-year performance periods described above for future performance periods or substitute new measures for new performance periods. The 2007 plan provides that the new measures can be one or more or a combination of consolidated (company-wide) or subsidiary, division or operating unit financial measures specified in the 2007 plan.

Within the “applicable period” (as defined in the 2007 plan) of each three-year performance period, the Nominating and Compensation Committee establishes a target number of shares of the Company’s common stock that each participant can earn subject to the Company’s achievement over the three-year performance period of threshold, target and excellent levels of the selected corporate performance measures. Threshold and excellent levels will be expressed as a multiple of the target level. The Nominating and Compensation Committee will also establish the weighting of each corporate performance measure for purposes of the performance calculations with the “applicable period” of each performance period. It is expected that the target number of shares will differ for each participant based on the participant’s current level of responsibility, past performance and recommendations of the Company’s Chief Executive Officer. The beginning of each fiscal year triggers the start of another three-year performance period. This plan structure results in three active performance periods being in place at any given time.

Awards will be paid to participants as soon as practicable after the end of a three-year performance period and verification of results. It is expected that payouts will typically occur within 75 days of the end of a performance period. No amounts earned under the 2007 plan will require additional criteria to complete the earning process. Performance shares will be valued using the closing share price of the Company’s common stock on the ending date of the performance period. The Company may deduct from all net amounts paid under the 2007 plan any federal, state or local taxes required by law to be withheld from such payments.

A participant’s awards will become immediately vested and will pay out assuming target performance for all active performance periods upon the occurrence of a change of control of the Company (as defined in the 2007 plan). The Nominating and Compensation Committee may amend or discontinue the 2007 plan at any time without prior notification to participants, but no amendment to the 2007 plan may adversely affect an outstanding award.

A copy of the 2007 plan is incorporated into this Current Report by reference from Appendix B to the Company’s proxy statement dated November 1, 2007.

### **Change of Control Amendment to Executive Retirement and Deferred Compensation Plans**

On December 10, 2007, the Company’s Board of Directors adopted amendments to the Company’s Senior Officer Supplemental Retirement Plans, Restoration Retirement Plan and Voluntary Deferred Compensation Plan (collectively, the “Retirement Plans”) with its executives to include a change of control provision. The Company’s Chief Executive Officer, Chief Financial Officer, Senior Vice President Vehicle Seating and Senior Vice President Marketing are participants in the Retirement Plans. The President and Chief Executive Officer of DMI Furniture, Inc. does not participate in the Retirement Plans.

Adoption of the amendments had been recommended by the Nominating and Compensation Committee based on advice from outside legal counsel that such a provision was customary and appropriate. Outside legal counsel had reviewed the Retirement Plans in connection with the preparation of the Company’s proxy statement for the 2007 annual shareholders meeting and for compliance with Section 409A of the Internal Revenue Code, as amended, earlier in the year. The amendments to the Retirement Plans was required prior to December 31, 2007 to avoid adverse tax consequences under Section 409A.

The Retirement Plans, as amended, provide that if a change of control (as defined in the Retirement Plans) occurs, the participant’s interest in the benefits under the Retirement Plans will be distributed in one lump sum. The amendments to the Retirement Plans also include changes to clarify claims procedures, payment procedures and other administrative matters.

Copies of the amendments to the Retirement Plans for the Company’s Chief Executive Officer, Chief Financial Officer, Senior Vice President Vehicle Seating and Senior Vice President Marketing are attached as exhibits 10.2 to 10.6 to this Current Report on Form 8-K and are incorporated by this reference.

### **Item 9.01 Financial Statements and Exhibits.**

- (a) Not applicable
- (b) Not applicable
- (c) Not applicable
- (d) Exhibits

### **Exhibit No.      Description**

10.1	Flexsteel Industries, Inc. 2007 Long-Term Management Incentive Compensation Plan (incorporated by reference to Appendix B to Flexsteel’s Proxy Statement dated November 1, 2007 filed with the Securities and Exchange Commission on November 1, 2007)
10.2	Form of Second Amendment to Flexsteel Industries, Inc. Senior Officer Supplemental Retirement Plan dated December 13, 2007 between Flexsteel Industries, Inc. and each of Ronald J. Klosterman, Thomas D. Burkart and James R. Richardson
10.3	First Amendment to Flexsteel Industries, Inc. Senior Officer Supplemental Retirement Plan dated December 13, 2007 between Flexsteel Industries, Inc. and Timothy E. Hall
10.4	First Amendment to Flexsteel Industries, Inc. Senior Officer Supplemental Retirement Plan II dated December 13, 2007 between Flexsteel Industries, Inc. and Ronald J. Klosterman
10.5	Fourth Amendment to Flexsteel Industries, Inc. Restoration Retirement Plan dated December 13, 2007 among Flexsteel Industries, Inc., James R. Richardson, Thomas D. Burkart, Ronald J. Klosterman, Patrick M. Crahan, Jeffrey T. Bertsch, James E. Gilbertson and Timothy E. Hall
10.6	Third Amendment to Flexsteel Industries, Inc. Voluntary Deferred Compensation Plan dated December 13, 2007 among Flexsteel Industries, Inc., James R. Richardson, Thomas D. Burkart, Ronald J. Klosterman, Patrick M. Crahan, Jeffrey T. Bertsch, James E. Gilbertson and Timothy E. Hall

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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 hereunto duly authorized.

FLEXSTEEL INDUSTRIES, INC.  
(Registrant)

Date: December 14, 2007

By: /s/ Timothy E. Hall  
Timothy E. Hall  
Vice President-Finance, CFO,  
and Secretary  
Principal Financial Officer

**FORM OF SECOND AMENDMENT TO FLEXSTEEL INDUSTRIES, INC.  
SENIOR OFFICER SUPPLEMENTAL RETIREMENT PLAN  
FOR EACH OF RONALD J. KLOSTERMAN, THOMAS D. BURKART AND JAMES R. RICHARDSON**

WHEREAS, a certain Senior Officer Supplemental Retirement Plan ("Agreement") was entered into on the 7th day of December, 2000, by and between FLEXSTEEL INDUSTRIES, INC., a Minnesota corporation (the "Corporation") and [INSERT OFFICER NAME], ("Employee"); and

WHEREAS, the Agreement was subsequently amended on November 13, 2006 for the purpose of complying with Internal Revenue Code section 409A; and

WHEREAS, pursuant to paragraph 9 of the Agreement, the Agreement may be amended from time to time with the signed written consent of both the Corporation and the Employee; and

WHEREAS, the Corporation and the Employee wish to amend the Agreement; and

WHEREAS, the Corporation and the Employees are adopting this Amendment in good faith compliance with Section 409A;

NOW, THEREFORE, pursuant to the provisions of paragraph 9 of the Agreement, the Agreement is hereby amended as follows:

I. Sub-paragraph E of paragraph 4 of the Agreement is hereby deleted and replaced with the following:

(E) PAYMENT. Employee's Account shall be paid to him beginning upon the date which is six months after the date of Employee's separation of service with the Corporation, unless the separation of service is due to Employee's death or disability prior to age 65. In the event Employee dies or becomes disabled prior to attaining age 65, payments shall commence upon the later of the date which is six (6) months after the date of Employee's separation from service due to death or disability, or the date of Employee's 65<sup>th</sup> birthday. Payments shall be made in accordance with the election form signed by Employee and attached hereto as Exhibit "A." The Employee may subsequently elect a different method of payment, provided the subsequent election complies with the rules of Section 409A(a)(4) of the Internal Revenue Code or any other comparable section, and the Regulations thereunder. Additionally, Employee shall have the right to designate a beneficiary to receive the remaining proceeds (see Exhibit "B" attached) if the Employee should die prior to receiving all of his payments. If Employee fails to execute a beneficiary designation or if the beneficiary is not alive at the time of distribution, then the proceeds due Employee will be paid to Employee's estate. The beneficiary designation may be changed at any time during Employee's lifetime as long as the Employee is competent or by Employee's attorney-in-fact who is specifically authorized to make the change.

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Notwithstanding the above, the Corporation may delay a payment due under this Agreement under any of the following circumstances, so long as all payments to similarly situated Employees are treated on a reasonably consistent basis: (1) the Corporation reasonably anticipates that if the payment were made as scheduled, the Corporation's deduction to such payment would not be permitted under section 162(m) of the Internal Revenue Code, as amended, provided that the payment is made either during the first year in which the Corporation reasonably anticipates, or should reasonably anticipate, that if the payment is made during such year, the deduction of such payment will not be barred by application of Section 162(m) or during the period beginning with the date of Employee' separation from service and ending on the later of the last day of the Corporation's fiscal year in which the Employee has a separation from service, or the 15<sup>th</sup> day of the third month following the separation from service; (2) the Corporation reasonably anticipates that the making of the payment will violate Federal securities laws or other applicable law, provided that the payment is made at the earliest date at which the Corporation reasonably anticipates that the making of the payment will not cause such violation; or (3) upon such other events as determined by the Corporation and according to such terms as are consistent with Internal Revenue Code section 409A or prescribed by the Commissioner of Internal Revenue.

II. Paragraph 9 of the Agreement is hereby deleted and replaced with the following:

9. AMENDMENT. This Agreement may be amended from time to time by the Corporation as necessary to comply with Federal tax laws and regulations to insure that all amounts deferred are deferred for tax purposes. Any such amendments shall be in writing and signed by both parties.

III. The following provisions shall be added to the Agreement and numbered as Paragraphs 19-22.

19. CHANGE OF CONTROL. For the purpose of this Agreement, a "Change of Control" shall mean any of the following:

- A. When any individual, entity, or group becomes the beneficial owner of 50% or more of either the total fair market value of the then-outstanding shares of stock of the Corporation or the total voting power of the then-outstanding stock of the Corporation entitled to vote generally in the election of directors.
- B. When individuals who, as of the date hereof, constitute the Board of Directors (the "Incumbent Directors") cease for any reason to constitute at least a majority of the Board during any 12-month period; **provided however**, that any individual becoming a director subsequent to the date hereof whose election or nomination for election by the Company's shareholders was approved by a vote of at least a majority of the Incumbent Directors then on the Board shall be considered as though such individual was an Incumbent Director, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board.

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- C. Upon the consummation of a reorganization, merger, statutory share exchange, or consolidation (or similar corporate transaction) involving the Corporation or any of its subsidiaries, a sale or other disposition of all or substantially all of the assets of the Corporation, or the acquisition of assets or stock of another entity by the Corporation or any of its subsidiaries (each a “Business Combination”), in each case, unless, immediately following such Business Combination:
- (i) substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the total fair market value of the then-outstanding shares of stock (or, for a non-corporate entity, equivalent securities) and the total voting power of the then-outstanding voting stock entitled to vote generally in the election of directors (or, for a non-corporate entity, equivalent governing body), as the case may be, of (A) the entity resulting from such Business Combination (the “Surviving Corporation”) or (B) if applicable, the ultimate parent entity that directly or indirectly has beneficial ownership of 80% or more of the voting securities eligible to elect directors of the Surviving Corporation (the “Parent Corporation”), in substantially the same proportion as their ownership, immediately prior to the Business Combination, of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be;
  - (ii) no individual, entity, or group, directly or indirectly acquires, or has acquired during the 12-month period ending on the date of the most recent acquisition, ownership of 30% or more of the total voting power of the stock of the Parent Corporation (or if there is no Parent Corporation, the Surviving Corporation); and
  - (iii) at least a majority of the members of the board of directors of the Parent Corporation (or if there is no Parent Corporation, the Surviving Corporation) following the consummation of the Business Combination were Incumbent Directors at the time of the Board’s approval of the execution of the initial agreement providing for such Business Combination.
- D. Upon approval by the shareholders of the Corporation of a complete liquidation or dissolution of the company.

20. DEFINITION OF “GROUP.” For purposes of Paragraph 19, above, persons will not be considered to be acting as a group solely because they purchase or own stock of the same corporation at the same time, or as a result of the same public offering. However, persons will be considered to be acting as a group if they meet the definition set forth in section 13(d)(3) of the Securities Exchange Act of 1934, or if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the corporation. If a person, including an entity, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such shareholder is considered to be acting as a group with other shareholders only with respect to the ownership in that corporation before the transaction giving rise to the change and not with respect to the ownership interest in the other corporation.

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21. DEFINITION OF “BENEFICIAL OWNER.” For purposes of Paragraph 19, above, the term “beneficial owner” shall be defined by Rule 13d-3 of the Rules promulgated under the Securities Exchange Act of 1934.

22. PAYMENT UPON CHANGE OF CONTROL. Notwithstanding any other provision of this Agreement to the contrary, in the event of a Change of Control, Employee’s interest in the benefits shall be distributed in a lump sum; provided however, that the amount vested and distributed by reason of this provision shall not exceed the amount which would cause the amount vested and distributed to be considered an “excess parachute payment” under section 280G of the Internal Revenue Code, as amended.

IV. The following provision shall be added to the Agreement and numbered as Paragraph 23.

23. INTERPRETATION, CONSTRUCTION, AND ADMINISTRATION OF AGREEMENT. The Corporation’s Chief Financial Officer, or the individual performing comparable duties, shall act as Plan Administrator. The Plan Administrator shall have full power and authority to interpret, construe and administer this Agreement and the Plan Administrator’s interpretation and construction thereof, and actions thereunder, including any valuation of the Deferred Compensation Account, or the amount or recipient of the payment to be made therefrom, shall be binding and conclusive on all persons for all purposes, unless review is requested in accordance with the Claims Procedures set forth in paragraphs 24 and 25 below. The review of any decision by the Plan Administrator pursuant to the Claims Procedures shall be performed by the individual or group of individuals appointed by the Nominating and Compensation Committee of the Board of Directors to act as Plan Fiduciary. Neither the Plan Administrator nor the Plan Fiduciary shall be liable to any person for any action taken or omitted in connection with the interpretation and administration of this Agreement unless attributable to his or her own willful misconduct or lack of good faith.

V. The following provision shall be added to the Agreement and numbered as Paragraph 24.

24. CLAIMS PROCEDURE.

A. NOTICE OF INITIAL DECISION. Any decision by the Plan Administrator denying a claim by Employee or Employee’s beneficiary for benefits under this Plan shall be stated in writing and delivered or mailed to the Employee or such beneficiary within a reasonable period of time, but no later than ninety (90) days after receipt of the claim by the Plan Administrator. Such decision shall set forth the specific reasons for the denial, with reference to the specific plan provisions on which the denial is based, written to the best of the Plan Administrator’s ability in a manner calculated to be understood without legal or actuarial counsel. The decision shall also provide a description of any additional material or information necessary for Employee or his/her beneficiary to perfect the claim and an explanation of why such material is necessary. The decision shall contain a description of the Corporation’s review procedures and the time limits applicable to such procedures, and inform Employee or his/her beneficiary of the right to bring a civil action under section 1132 of ERISA following an adverse determination on review. If the Plan Administrator determines there are special circumstances which require additional time to make a decision, the Plan Administrator shall notify Employee or his/her beneficiary of the date by which a decision is expected to be made, and may extend the time for up to an additional ninety (90) days.

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B. EMPLOYEE'S RIGHT TO REVIEW. If the Plan Administrator determines Employee or his/her beneficiary is not eligible for benefits, or if Employee or his/her beneficiary believes he or she is entitled to greater or different benefits, the Employee or his/her beneficiary shall have the opportunity to have his or her claim reviewed by filing a petition for review with the Plan Fiduciary within sixty (60) days after receipt of the Plan Administrator's written notice of the decision denying benefits. The petition shall state the specific reasons Employee or his/her beneficiary believes he or she is entitled to benefits or greater or different benefits. Within sixty (60) days after the Plan Fiduciary's receipt of the petition, the Plan Fiduciary shall afford Employee or his/her beneficiary, and his or her legal counsel, if any, an opportunity to present his or her position to the Plan Fiduciary orally or in writing. The Plan Fiduciary shall inform Employee or his/her beneficiary of its decision in writing within the same sixty (60) day period, stating the specific reasons and specific provisions in the plan on which its decision is based. If the sixty (60) day period is not a sufficient amount of time for holding a hearing and rendering a decision, the Plan Fiduciary may extend the time to render a decision for up to another sixty (60) days, but notice of any such extension shall be given to Employee or his/her beneficiary in writing prior to the expiration of the initial 60-day period.

The failure to file an appeal within the sixty (60) day period will cause Employee or his/her beneficiary to lose the right to appeal the denial and the right to bring a civil action under section 1132 of ERISA. In the event the Plan Fiduciary denies an appeal of a denial of a claim for benefits, any civil action to challenge the denial of such claim must be brought within one year of the date of the Plan Fiduciary's final decision on the appeal.

VI. The following paragraph shall be added to the agreement and numbered as Paragraph 25.

25. CLAIM PROCEDURE--DISABILITY BENEFITS.

A. NOTICE OF INITIAL DECISION. Any decision by the Plan Administrator denying a claim by Employee or Employee's beneficiary for disability benefits under this Plan shall be stated in writing and delivered or mailed to the Employee or such beneficiary within a reasonable period of time, but no later than forty-five (45) days after receipt of the claim by the Plan Administrator. Such decision shall set forth the specific reasons for the denial, with reference to the specific plan provisions on which the denial is based, written to the best of the Plan Administrator's ability in a manner calculated to be understood without legal or actuarial counsel. The decision shall also provide a description of any additional material or information necessary for Employee or his/her beneficiary to perfect the claim and an explanation of why such material is necessary. The decision shall contain a description of the Company's review procedures and the time limits applicable to such procedures, and inform Employee or his/her beneficiary of the right to bring a civil action under section 1132 of ERISA following an adverse determination on review. If the Plan Administrator determines there are special circumstances which require additional time to make a decision, the Plan Administrator shall notify Employee or his/her beneficiary prior to the expiration of the initial 45-day period, of the circumstances requiring the extension of time and the date by which a decision is expected to be made, and may extend the time for up to an additional thirty (30) days. If, prior to the end of the first 30-day extension period, the Plan Administrator determines that, due to matters beyond the control of the Plan Administrator, a decision cannot be rendered, the period for making a decision may be extended for up to an additional thirty (30) days, provided that the Plan Administrator notifies the Employee or his/her beneficiary prior to expiration of the first 30-day extension period, of the circumstances requiring the extension and the date as of which the plan expects to render a decision. In the case of any extension, the notice of extension shall specifically explain the standards on which entitlement to disability benefits is based, the unresolved issues that prevent a decision on the claim, and the additional information needed to resolve those issues. The Employee or his/her beneficiary shall be given at least 45 days after notice of the extension to provide such additional information.

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B. EMPLOYEE'S RIGHT TO REVIEW. If the Plan Administrator determines Employee or his/her beneficiary is not eligible for benefits, or if Employee or his/her beneficiary believes he or she is entitled to greater or different benefits, the Employee or his/her beneficiary shall have the opportunity to have his or her claim reviewed by the Plan Fiduciary by filing a petition for review with the Plan Fiduciary within one hundred eighty (180) days after receipt of the Administrator's written notice of the decision denying benefits. The petition shall state the specific reasons Employee or his/her beneficiary believes he or she is entitled to benefits or greater or different benefits. In conducting the review, the Plan Fiduciary shall not give any deference to the initial adverse benefit determination. In addition, the Plan Fiduciary conducting such review shall not be the individual who made the initial adverse benefit determination, nor the subordinate of such individual. In deciding an appeal of any adverse benefit determination based on a medical judgment, the Plan Fiduciary shall consult with a health care professional who has appropriate training and experience in the field of medicine involved in the medical judgment, and who is neither an individual that was previously consulted in connection with the initial adverse benefit determination that is the subject of review, nor the subordinate of any such individual.

Within forty-five (45) days after the Plan Fiduciary's receipt of the petition, the Plan Fiduciary shall afford Employee or his/her beneficiary, and his or her legal counsel, if any, an opportunity to present his or her position to the Plan Fiduciary orally or in writing. The Plan Fiduciary shall inform Employee or his/her beneficiary of its decision in writing within the same forty-five (45) day period, stating the specific reasons and specific provisions in the plan on which its decision is based, and identifying any medical or vocational experts whose advice was obtained in connection with the appeal, regardless of whether the Plan Fiduciary relied upon such advice in rendering the decision. If the forty-five (45) day period is not a sufficient amount of time for holding a hearing and rendering a decision, the Plan Fiduciary may extend the time to make a decision up to another forty-five (45) days, but notice of any such extension shall be given to Employee or his/her beneficiary in writing prior to the expiration of the initial 45-day period. The notice of extension shall indicate the special circumstances requiring an extension and set forth the date by which the Plan Fiduciary expects to render the decision.

The failure to file an appeal within the one hundred eighty (180) day period will cause Employee or his/her beneficiary to lose the right to appeal the denial and the right to bring a civil action under section 1132 of ERISA. In the event the Plan Fiduciary denies an appeal of a denial of a claim for benefits, any civil action to challenge the denial of such claim must be brought within one year of the date of the Plan Fiduciary's final decision on the appeal.

VII. This Amendment shall relate back to the effective date of the Agreement.

VIII. In all other respects, the Agreement is hereby ratified and confirmed.

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**EXHIBIT ONLY – NOT FOR SIGNATURE**

FLEXSTEEL INDUSTRIES, INC.

By: \_\_\_\_\_  
Ronald J. Klosterman, President                      Date

By: \_\_\_\_\_  
Timothy E. Hall, Secretary                              Date

By: \_\_\_\_\_  
[INSERT OFFICER NAME], Employee                  Date

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**EXHIBIT A**

**FLEXSTEEL INDUSTRIES, INC.  
SENIOR OFFICER SUPPLEMENTAL RETIREMENT PLAN  
EMPLOYEE’S ELECTION OF METHOD OF PAYMENT**

Under the Senior Officer Supplemental Retirement Plan Agreement (the “Agreement”) with Flexsteel Industries, Inc., I [INSERT OFFICER NAME], elect to receive the balance of my Account, when payable under the agreement, as follows: (check one of the boxes below):

- A. In a lump sum within thirty days after the event requiring payment.
- B. In two approximately equal payments, the first due within thirty days after the event requiring payment and the second due on January 2<sup>nd</sup> of the following calendar year.
- C. In approximate equal annual installments over a five year period, with the first payment due within thirty days after the event requiring payment.
- D. In approximate equal annual installments over a ten year period with the first payment due within thirty days after the event requiring payment.
- E. In approximate equal annual installments over a fifteen year period with the first payment due within thirty days after the event requiring payment.
- F. In approximate equal semi-annual installments over a five year period with the first payment due within thirty days after the event requiring payment.
- G. In approximate equal semi-annual installments over a ten year period with the first payment due within thirty days after the event requiring payment.
- H. In approximate equal semi-annual installments over a fifteen year period with the first payment due within thirty days after the event requiring payment.

**EXHIBIT ONLY – NOT FOR SIGNATURE**

\_\_\_\_\_  
[INSERT OFFICER NAME]                                      Date  
Employee

**FIRST AMENDMENT TO FLEXSTEEL INDUSTRIES, INC.  
SENIOR OFFICER SUPPLEMENTAL RETIREMENT PLAN**

WHEREAS, a certain Senior Officer Supplemental Retirement Plan (“Agreement”) was entered into on the 6th day of June, 2006, by and between FLEXSTEEL INDUSTRIES, INC., a Minnesota corporation (the “Corporation”) and Timothy E. Hall, (“Employee”); and

WHEREAS, pursuant to paragraph 8 of the Agreement, the Agreement may be amended from time to time with the signed written consent of both the Corporation and the Employee; and

WHEREAS, the Corporation and the Employee wish to amend the Agreement; and

WHEREAS, the Corporation and the Employee are adopting this Amendment in good faith compliance with Section 409A;

NOW, THEREFORE, pursuant to the provisions of paragraph 9 of the Agreement, the following Amendment is hereby made to the Agreement.

I. Sub-paragraph E of paragraph 3 of the Agreement is hereby deleted and replaced with the following:

(E) PAYMENT Employee’s Account shall be paid to him beginning upon the date which is six months after the date of Employee’s separation of service with the Corporation, unless the separation of service is due to Employee’s death or disability prior to age 65. In the event Employee dies or becomes disabled prior to attaining age 65, payments shall commence upon the later of the date which is six (6) months after the date of Employee’s separation from service due to death or disability, or the date of Employee’s 65<sup>th</sup> birthday. Payments shall be made in accordance with the election form signed by Employee and attached hereto as Exhibit “A.” The Employee may subsequently elect a different method of payment, provided the subsequent election complies with the rules of Section 409A(a)(4) of the Internal Revenue Code or any other comparable section, and the Regulations thereunder. Additionally, Employee shall have the right to designate a beneficiary to receive the remaining proceeds (see Exhibit “B” attached) if the Employee should die prior to receiving all of his payments. If Employee fails to execute a beneficiary designation or if the beneficiary is not alive at the time of distribution, then the proceeds due Employee will be paid to Employee’s estate. The beneficiary designation may be changed at any time during Employee’s lifetime as long as the Employee is competent or by Employee’s attorney-in-fact who is specifically authorized to make the change.

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Notwithstanding the above, the Corporation may delay a payment due under this Agreement under any of the following circumstances, so long as all payments to similarly situated Employees are treated on a reasonably consistent basis: (1) the Corporation reasonably anticipates that if the payment were made as scheduled, the Corporation’s deduction to such payment would not be permitted under section 162(m) of the Internal Revenue Code, as amended, provided that the payment is made either during the first year in which the Corporation reasonably anticipates, or should reasonably anticipate, that if the payment is made during such year, the deduction of such payment will not be barred by application of Section 162(m) or during the period beginning with the date of Employee’ separation from service and ending on the later of the last day of the Corporation’s fiscal year in which the Employee has a separation from service, or the 15<sup>th</sup> day of the third month following the separation from service; (2) the Corporation reasonably anticipates that the making of the payment will violate Federal securities laws or other applicable law, provided that the payment is made at the earliest date at which the Corporation reasonably anticipates that the making of the payment will not cause such violation; or (3) upon such other events as determined by the Corporation and according to such terms as are consistent with Internal Revenue Code section 409A or prescribed by the Commissioner of Internal Revenue.

II. The following provisions shall be added to the Agreement and numbered as Paragraph 18-21.

18. Change of Control. For the purpose of this Agreement, a “Change of Control” shall mean any of the following:

- A. When any individual, entity, or group becomes the beneficial owner of 50% or more of either the total fair market value of the then–outstanding shares of stock of the Corporation or the total voting power of the then–outstanding stock of the Corporation entitled to vote generally in the election of directors.
- B. When individuals who, as of the date hereof, constitute the Board of Directors (the “Incumbent Directors”) cease for any reason to constitute at least a majority of the Board during any 12-month period; **provided however**, that any individual becoming a director subsequent to the date hereof whose election or nomination for election by the Company’s shareholders was approved by a vote of at least a majority of the Incumbent Directors then on the Board shall be considered as though such individual was an Incumbent Director, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board.

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C. Upon the consummation of a reorganization, merger, statutory share exchange, or consolidation (or similar corporate transaction) involving the Corporation or any of its subsidiaries, a sale or other disposition of all or substantially all of the assets of the Corporation, or the acquisition of assets or stock of another entity by the Corporation or any of its subsidiaries (each a “Business Combination”), in each case, unless, immediately following such Business Combination:

- (i) substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the total fair market value of the then-outstanding shares of stock (or, for a non–corporate



entity, equivalent securities) and the total voting power of the then-outstanding voting stock entitled to vote generally in the election of directors (or, for a non-corporate entity, equivalent governing body), as the case may be, of (A) the entity resulting from such Business Combination (the "Surviving Corporation") or (B) if applicable, the ultimate parent entity that directly or indirectly has beneficial ownership of 80% or more of the voting securities eligible to elect directors of the Surviving Corporation (the "Parent Corporation"), in substantially the same proportion as their ownership, immediately prior to the Business Combination, of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be;

- (ii) no individual, entity, or group, directly or indirectly acquires, or has acquired during the 12-month period ending on the date of the most recent acquisition, ownership of 30% or more of the total voting power of the stock of the Parent Corporation (or if there is no Parent Corporation, the Surviving Corporation); and
- (iii) at least a majority of the members of the board of directors of the Parent Corporation (or if there is no Parent Corporation, the Surviving Corporation) following the consummation of the Business Combination were Incumbent Directors at the time of the Board's approval of the execution of the initial agreement providing for such Business Combination.

D. Upon approval by the shareholders of the Corporation of a complete liquidation or dissolution of the company.

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19. Definition of "Group." For purposes of Paragraph 18, above, persons will not be considered to be acting as a group solely because they purchase or own stock of the same corporation at the same time, or as a result of the same public offering. However, persons will be considered to be acting as a group if they meet the definition set forth in section 13(d)(3) of the Securities Exchange Act of 1934, or if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the corporation. If a person, including an entity, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such shareholder is considered to be acting as a group with other shareholders only with respect to the ownership in that corporation before the transaction giving rise to the change and not with respect to the ownership interest in the other corporation.

20. Definition of "Beneficial Owner." For purposes of Paragraph 18, above, the term "beneficial owner" shall be defined by Rule 13d-3 of the Rules promulgated under the Securities Exchange Act of 1934.

21. Payment upon Change of Control. Notwithstanding any other provision of this Agreement to the contrary, in the event of a Change of Control, Employee's interest in the benefits shall be distributed in a lump sum; provided however, that the amount vested and distributed by reason of this provision shall not exceed the amount which would cause the amount vested and distributed to be considered an "excess parachute payment" under section 280G of the Internal Revenue Code, as amended.

III. The following provision shall be added to the Agreement and numbered as Paragraph 22.

22. Interpretation, Construction, and Administration of Agreement. The Corporation's Chief Financial Officer, or the individual performing comparable duties, shall act as Plan Administrator. The Plan Administrator shall have full power and authority to interpret, construe and administer this Agreement and the Plan Administrator's interpretation and construction thereof, and actions thereunder, including any valuation of the Deferred Compensation Account, or the amount or recipient of the payment to be made therefrom, shall be binding and conclusive on all persons for all purposes, unless review is requested in accordance with the Claims Procedures set forth in paragraphs 23 and 24 below. The review of any decision by the Plan Administrator pursuant to the Claims Procedures shall be performed by the individual or group of individuals appointed by the Nominating and Compensation Committee of the Board of Directors to act as Plan Fiduciary. Neither the Plan Administrator nor the Plan Fiduciary shall be liable to any person for any action taken or omitted in connection with the interpretation and administration of this Agreement unless attributable to his or her own willful misconduct or lack of good faith.

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IV. The following provision shall be added to the Agreement and numbered as Paragraph 23.

23. Claims Procedure.

A. Notice of Initial Decision. Any decision by the Plan Administrator denying a claim by Employee or Employee's beneficiary for benefits under this Plan shall be stated in writing and delivered or mailed to the Employee or such beneficiary within a reasonable period of time, but no later than ninety (90) days after receipt of the claim by the Plan Administrator. Such decision shall set forth the specific reasons for the denial, with reference to the specific plan provisions on which the denial is based, written to the best of the Plan Administrator's ability in a manner calculated to be understood without legal or actuarial counsel. The decision shall also provide a description of any additional material or information necessary for Employee or his/her beneficiary to perfect the claim and an explanation of why such material is necessary. The decision shall contain a description of the Corporation's review procedures and the time limits applicable to such procedures, and inform Employee or his/her beneficiary of the right to bring a civil action under section 1132 of ERISA following an adverse determination on review. If the Plan Administrator determines there are special circumstances which require additional time to make a decision, the Plan Administrator shall notify Employee or his/her beneficiary of the date by which a decision is expected to be made, and may extend the time for up to an additional ninety (90) days.

B. Employee's right to Review. If the Plan Administrator determines Employee or his/her beneficiary is not eligible for benefits, or if Employee or his/her beneficiary believes he or she is entitled to greater or different benefits, the Employee or his/her beneficiary shall have the opportunity to have his or her claim reviewed by filing a petition for review with the Plan Fiduciary within sixty (60) days after receipt of the Plan Administrator's written notice of the decision denying benefits. The petition shall state the specific reasons Employee or his/her beneficiary believes he or she is entitled to benefits or greater or different benefits. Within sixty (60) days after the Plan Fiduciary's receipt of the petition, the Plan Fiduciary shall afford Employee or his/her beneficiary, and his or her legal counsel, if any, an opportunity to present his or her position to the Plan Fiduciary orally or in writing. The Plan Fiduciary shall inform Employee or his/her beneficiary of its decision in writing within the same sixty (60) day period, stating

the specific reasons and specific provisions in the plan on which its decision is based. If the sixty (60) day period is not a sufficient amount of time for holding a hearing and rendering a decision, the Plan Fiduciary may extend the time to render a decision for up to another sixty (60) days, but notice of any such extension shall be given to Employee or his/her beneficiary in writing prior to the expiration of the initial 60-day period.

The failure to file an appeal within the sixty (60) day period will cause Employee or his/her beneficiary to lose the right to appeal the denial and the right to bring a civil action under section 1132 of ERISA. In the event the Plan Fiduciary denies an appeal of a denial of a claim for benefits, any civil action to challenge the denial of such claim must be brought within one year of the date of the Plan Fiduciary's final decision on the appeal.

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V. The following paragraph shall be added to the agreement and numbered as Paragraph 24.

24. Claim Procedure—Disability Benefits.

A. Notice of Initial Decision. Any decision by the Plan Administrator denying a claim by Employee or Employee's beneficiary for disability benefits under this Plan shall be stated in writing and delivered or mailed to the Employee or such beneficiary within a reasonable period of time, but no later than forty-five (45) days after receipt of the claim by the Plan Administrator. Such decision shall set forth the specific reasons for the denial, with reference to the specific plan provisions on which the denial is based, written to the best of the Plan Administrator's ability in a manner calculated to be understood without legal or actuarial counsel. The decision shall also provide a description of any additional material or information necessary for Employee or his/her beneficiary to perfect the claim and an explanation of why such material is necessary. The decision shall contain a description of the Company's review procedures and the time limits applicable to such procedures, and inform Employee or his/her beneficiary of the right to bring a civil action under section 1132 of ERISA following an adverse determination on review. If the Plan Administrator determines there are special circumstances which require additional time to make a decision, the Plan Administrator shall notify Employee or his/her beneficiary prior to the expiration of the initial 45-day period, of the circumstances requiring the extension of time and the date by which a decision is expected to be made, and may extend the time for up to an additional thirty (30) days. If, prior to the end of the first 30-day extension period, the Plan Administrator determines that, due to matters beyond the control of the Plan Administrator, a decision cannot be rendered, the period for making a decision may be extended for up to an additional thirty (30) days, provided that the Plan Administrator notifies the Employee or his/her beneficiary prior to expiration of the first 30-day extension period, of the circumstances requiring the extension and the date as of which the plan expects to render a decision. In the case of any extension, the notice of extension shall specifically explain the standards on which entitlement to disability benefits is based, the unresolved issues that prevent a decision on the claim, and the additional information needed to resolve those issues. The Employee or his/her beneficiary shall be given at least 45 days after notice of the extension to provide such additional information.

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B. Employee's right to Review. If the Plan Administrator determines Employee or his/her beneficiary is not eligible for benefits, or if Employee or his/her beneficiary believes he or she is entitled to greater or different benefits, the Employee or his/her beneficiary shall have the opportunity to have his or her claim reviewed by the Plan Fiduciary by filing a petition for review with the Plan Fiduciary within one hundred eighty (180) days after receipt of the Administrator's written notice of the decision denying benefits. The petition shall state the specific reasons Employee or his/her beneficiary believes he or she is entitled to benefits or greater or different benefits. In conducting the review, the Plan Fiduciary shall not give any deference to the initial adverse benefit determination. In addition, the Plan Fiduciary conducting such review shall not be the individual who made the initial adverse benefit determination, nor the subordinate of such individual. In deciding an appeal of any adverse benefit determination based on a medical judgment, the Plan Fiduciary shall consult with a health care professional who has appropriate training and experience in the field of medicine involved in the medical judgment, and who is neither an individual that was previously consulted in connection with the initial adverse benefit determination that is the subject of review, nor the subordinate of any such individual.

Within forty-five (45) days after the Plan Fiduciary's receipt of the petition, the Plan Fiduciary shall afford Employee or his/her beneficiary, and his or her legal counsel, if any, an opportunity to present his or her position to the Plan Fiduciary orally or in writing. The Plan Fiduciary shall inform Employee or his/her beneficiary of its decision in writing within the same forty-five (45) day period, stating the specific reasons and specific provisions in the plan on which its decision is based, and identifying any medical or vocational experts whose advice was obtained in connection with the appeal, regardless of whether the Plan Fiduciary relied upon such advice in rendering the decision. If the forty-five (45) day period is not a sufficient amount of time for holding a hearing and rendering a decision, the Plan Fiduciary may extend the time to make a decision up to another forty-five (45) days, but notice of any such extension shall be given to Employee or his/her beneficiary in writing prior to the expiration of the initial 45-day period. The notice of extension shall indicate the special circumstances requiring an extension and set forth the date by which the Plan Fiduciary expects to render the decision.

The failure to file an appeal within the one hundred eighty (180) day period will cause Employee or his/her beneficiary to lose the right to appeal the denial and the right to bring a civil action under section 1132 of ERISA. In the event the Plan Fiduciary denies an appeal of a denial of a claim for benefits, any civil action to challenge the denial of such claim must be brought within one year of the date of the Plan Fiduciary's final decision on the appeal.

VI. This Amendment shall relate back to the effective date of the Agreement.

VII. In all other respects, the Agreement is hereby ratified and confirmed.

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**FIRST AMENDMENT TO FLEXSTEEL INDUSTRIES, INC.  
SENIOR OFFICER SUPPLEMENTAL RETIREMENT PLAN II**

WHEREAS, a certain Senior Officer Supplemental Retirement Plan II (“Agreement”) was entered into on the 6th day of June, 2006, by and between FLEXSTEEL INDUSTRIES, INC., a Minnesota corporation (the “Corporation”) and Ronald J. Klosterman, (“Employee”); and

WHEREAS, pursuant to paragraph 6 of the Agreement, the Agreement may be amended from time to time with the signed written consent of both the Corporation and the Employee; and

WHEREAS, the Corporation and the Employee wish to amend the Agreement; and

WHEREAS, the Corporation and the Employees are adopting this Amendment in good faith compliance with Section 409A;

NOW, THEREFORE, pursuant to the provisions of paragraph 6 of the Agreement, the following Amendment is hereby made to the Agreement.

I. Sub-paragraph D of paragraph 1 of the Agreement is hereby deleted and replaced with the following:

(D) **PAYMENT.** Each Employee’s Account will be paid to him beginning upon the date which is six months after the date of Employee’s separation from service with the Corporation. Payments shall be made in accordance with the election form signed by the Employee and attached hereto as Exhibit “A.” The Employee may subsequently elect a different method of payment, provided the subsequent election complies with the rules of Section 409A(a) (4) of the Internal Revenue Code or any other comparable section, and the Regulations thereunder. Additionally, the Employee shall have the right to designate a beneficiary to receive the remaining proceeds (see Exhibit “B” attached), if the Employee should die prior to receiving all of his payments. If an Employee fails to execute a beneficiary designation or if the beneficiary is not alive at the time of distribution, then the proceeds due Employee will be paid to the Employee’s estate. The beneficiary designation may be changed at any time during Employee’s lifetime as long as the Employee is competent or by the Employee’s attorney-in-fact who is specifically authorized to make the change.

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Notwithstanding the above, the Corporation may delay a payment due under this Agreement under any of the following circumstances, so long as all payments to similarly situated Employees are treated on a reasonably consistent basis: (1) the Corporation reasonably anticipates that if the payment were made as scheduled, the Corporation’s deduction to such payment would not be permitted under section 162(m) of the Internal Revenue Code, as amended, provided that the payment is made either during the first year in which the Corporation reasonably anticipates, or should reasonably anticipate, that if the payment is made during such year, the deduction of such payment will not be barred by application of Section 162(m) or during the period beginning with the date of Employee’ separation from service and ending on the later of the last day of the Corporation’s fiscal year in which the Employee has a separation from service, or the 15<sup>th</sup> day of the third month following the separation from service; (2) the Corporation reasonably anticipates that the making of the payment will violate Federal securities laws or other applicable law, provided that the payment is made at the earliest date at which the Corporation reasonably anticipates that the making of the payment will not cause such violation; or (3) upon such other events as determined by the Corporation and according to such terms as are consistent with Internal Revenue Code section 409A or prescribed by the Commissioner of Internal Revenue.

II. The following provisions shall be added to the Agreement and numbered as Paragraphs 16-19.

16. Change of Control. For the purpose of this Agreement, a “Change of Control” shall mean any of the following:

- A. When any individual, entity, or group becomes the beneficial owner of 50% or more of either the total fair market value of the then–outstanding shares of stock of the Corporation or the total voting power of the then–outstanding stock of the Corporation entitled to vote generally in the election of directors.
- B. When individuals who, as of the date hereof, constitute the Board of Directors (the “Incumbent Directors”) cease for any reason to constitute at least a majority of the Board during any 12-month period; **provided however**, that any individual becoming a director subsequent to the date hereof whose election or nomination for election by the Company’s shareholders was approved by a vote of at least a majority of the Incumbent Directors then on the Board shall be considered as though such individual was an Incumbent Director, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board.

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C. Upon the consummation of a reorganization, merger, statutory share exchange, or consolidation (or similar corporate transaction) involving the Corporation or any of its subsidiaries, a sale or other disposition of all or substantially all of the assets of the Corporation, or the acquisition of assets or stock of another entity by the Corporation or any of its subsidiaries (each a “Business Combination”), in each case, unless, immediately following such Business Combination:

- (i) substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the total fair market value of the then–outstanding shares of stock (or, for a non–corporate entity, equivalent securities) and the total voting power of the then–outstanding voting stock entitled to vote generally in the election of directors (or, for a non–corporate entity, equivalent governing body), as the case may be, of (A) the entity resulting from such

Business Combination (the “Surviving Corporation”) or (B) if applicable, the ultimate parent entity that directly or indirectly has beneficial ownership of 80% or more of the voting securities eligible to elect directors of the Surviving Corporation (the “Parent Corporation”), in substantially the same proportion as their ownership, immediately prior to the Business Combination, of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be;

- (ii) no individual, entity, or group, directly or indirectly acquires, or has acquired during the 12-month period ending on the date of the most recent acquisition, ownership of 30% or more of the total voting power of the stock of the Parent Corporation (or if there is no Parent Corporation, the Surviving Corporation); and
- (iii) at least a majority of the members of the board of directors of the Parent Corporation (or if there is no Parent Corporation, the Surviving Corporation) following the consummation of the Business Combination were Incumbent Directors at the time of the Board’s approval of the execution of the initial agreement providing for such Business Combination.

D. Upon approval by the shareholders of the Corporation of a complete liquidation or dissolution of the company.

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17. Definition of “Group.” For purposes of Paragraph 16, above, persons will not be considered to be acting as a group solely because they purchase or own stock of the same corporation at the same time, or as a result of the same public offering. However, persons will be considered to be acting as a group if they meet the definition set forth in section 13(d)(3) of the Securities Exchange Act of 1934, or if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the corporation. If a person, including an entity, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such shareholder is considered to be acting as a group with other shareholders only with respect to the ownership in that corporation before the transaction giving rise to the change and not with respect to the ownership interest in the other corporation.

18. Definition of “Beneficial Owner.” For purposes of Paragraph 16, above, the term “beneficial owner” shall be defined by Rule 13d-3 of the Rules promulgated under the Securities Exchange Act of 1934.

19. Payment upon Change of Control. Notwithstanding any other provision of this Agreement to the contrary, in the event of a Change of Control, Employee’s interest in the benefits shall be distributed in a lump sum; provided however, that the amount vested and distributed by reason of this provision shall not exceed the amount which would cause the amount vested and distributed to be considered an “excess parachute payment” under section 280G of the Internal Revenue Code, as amended.

III. The following provision shall be added to the Agreement and numbered as Paragraph 20.

20. Interpretation, Construction, and Administration of Agreement. The Corporation’s Chief Financial Officer, or the individual performing comparable duties, shall act as Plan Administrator. The Plan Administrator shall have full power and authority to interpret, construe and administer this Agreement and the Plan Administrator’s interpretation and construction thereof, and actions thereunder, including any valuation of the Deferred Compensation Account, or the amount or recipient of the payment to be made therefrom, shall be binding and conclusive on all persons for all purposes, unless review is requested in accordance with the Claims Procedures set forth in paragraphs 21 and 22 below. The review of any decision by the Plan Administrator pursuant to the Claims Procedures shall be performed by the individual or group of individuals appointed by the Nomination and Compensation Committee of the Board of Directors to act as Plan Fiduciary. Neither the Plan Administrator nor the Plan Fiduciary shall be liable to any person for any action taken or omitted in connection with the interpretation and administration of this Agreement unless attributable to his or her own willful misconduct or lack of good faith.

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IV. The following provision shall be added to the Agreement and numbered as Paragraph 21.

21. Claims Procedure.

A. Notice of Initial Decision. Any decision by the Plan Administrator denying a claim by Employee or Employee’s beneficiary for benefits under this Plan shall be stated in writing and delivered or mailed to the Employee or such beneficiary within a reasonable period of time, but no later than ninety (90) days after receipt of the claim by the Plan Administrator. Such decision shall set forth the specific reasons for the denial, with reference to the specific plan provisions on which the denial is based, written to the best of the Plan Administrator’s ability in a manner calculated to be understood without legal or actuarial counsel. The decision shall also provide a description of any additional material or information necessary for Employee or his/her beneficiary to perfect the claim and an explanation of why such material is necessary. The decision shall contain a description of the Corporation’s review procedures and the time limits applicable to such procedures, and inform Employee or his/her beneficiary of the right to bring a civil action under section 1132 of ERISA following an adverse determination on review. If the Plan Administrator determines there are special circumstances which require additional time to make a decision, the Plan Administrator shall notify Employee or his/her beneficiary of the date by which a decision is expected to be made, and may extend the time for up to an additional ninety (90) days.

B. Employee’s right to Review. If the Plan Administrator determines Employee or his/her beneficiary is not eligible for benefits, or if Employee or his/her beneficiary believes he or she is entitled to greater or different benefits, the Employee or his/her beneficiary shall have the opportunity to have his or her claim reviewed by filing a petition for review with the Plan Fiduciary within sixty (60) days after receipt of the Plan Administrator’s written notice of the decision denying benefits. The petition shall state the specific reasons Employee or his/her beneficiary believes he or she is entitled to benefits or greater or different benefits. Within sixty (60) days after the Plan Fiduciary’s receipt of the petition, the Plan Fiduciary shall afford Employee or his/her beneficiary, and his or her legal counsel, if any, an opportunity to present his or her position to the Plan Fiduciary orally or in writing. The Plan Fiduciary shall inform Employee or his/her beneficiary of its decision in writing within the same sixty (60) day period, stating the specific reasons and specific provisions in the plan on which its decision is based. If the sixty (60) day period is not a sufficient amount of time for

holding a hearing and rendering a decision, the Plan Fiduciary may extend the time to render a decision for up to another sixty (60) days, but notice of any such extension shall be given to Employee or his/her beneficiary in writing prior to the expiration of the initial 60-day period.

The failure to file an appeal within the sixty (60) day period will cause Employee or his/her beneficiary to lose the right to appeal the denial and the right to bring a civil action under section 1132 of ERISA. In the event the Plan Fiduciary denies an appeal of a denial of a claim for benefits, any civil action to challenge the denial of such claim must be brought within one year of the date of the Plan Fiduciary's final decision on the appeal.

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V. The following paragraph shall be added to the agreement and numbered as Paragraph 22.

22. Claim Procedure—Disability Benefits.

A. Notice of Initial Decision. Any decision by the Plan Administrator denying a claim by Employee or Employee's beneficiary for disability benefits under this Plan shall be stated in writing and delivered or mailed to the Employee or such beneficiary within a reasonable period of time, but no later than forty-five (45) days after receipt of the claim by the Plan Administrator. Such decision shall set forth the specific reasons for the denial, with reference to the specific plan provisions on which the denial is based, written to the best of the Plan Administrator's ability in a manner calculated to be understood without legal or actuarial counsel. The decision shall also provide a description of any additional material or information necessary for Employee or his/her beneficiary to perfect the claim and an explanation of why such material is necessary. The decision shall contain a description of the Company's review procedures and the time limits applicable to such procedures, and inform Employee or his/her beneficiary of the right to bring a civil action under section 1132 of ERISA following an adverse determination on review. If the Plan Administrator determines there are special circumstances which require additional time to make a decision, the Plan Administrator shall notify Employee or his/her beneficiary prior to the expiration of the initial 45-day period, of the circumstances requiring the extension of time and the date by which a decision is expected to be made, and may extend the time for up to an additional thirty (30) days. If, prior to the end of the first 30-day extension period, the Plan Administrator determines that, due to matters beyond the control of the Plan Administrator, a decision cannot be rendered, the period for making a decision may be extended for up to an additional thirty (30) days, provided that the Plan Administrator notifies the Employee or his/her beneficiary prior to expiration of the first 30-day extension period, of the circumstances requiring the extension and the date as of which the plan expects to render a decision. In the case of any extension, the notice of extension shall specifically explain the standards on which entitlement to disability benefits is based, the unresolved issues that prevent a decision on the claim, and the additional information needed to resolve those issues. The Employee or his/her beneficiary shall be given at least 45 days after notice of the extension to provide such additional information.

B. Employee's right to Review. If the Plan Administrator determines Employee or his/her beneficiary is not eligible for benefits, or if Employee or his/her beneficiary believes he or she is entitled to greater or different benefits, the Employee or his/her beneficiary shall have the opportunity to have his or her claim reviewed by the Plan Fiduciary by filing a petition for review with the Plan Fiduciary within one hundred eighty (180) days after receipt of the Administrator's written notice of the decision denying benefits. The petition shall state the specific reasons Employee or his/her beneficiary believes he or she is entitled to benefits or greater or different benefits. In conducting the review, the Plan Fiduciary shall not give any deference to the initial adverse benefit determination. In addition, the Plan Fiduciary conducting such review shall not be the individual who made the initial adverse benefit determination, nor the subordinate of such individual. In deciding an appeal of any adverse benefit determination based on a medical judgment, the Plan Fiduciary shall consult with a health care professional who has appropriate training and experience in the field of medicine involved in the medical judgment, and who is neither an individual that was previously consulted in connection with the initial adverse benefit determination that is the subject of review, nor the subordinate of any such individual.

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Within forty-five (45) days after the Plan Fiduciary's receipt of the petition, the Plan Fiduciary shall afford Employee or his/her beneficiary, and his or her legal counsel, if any, an opportunity to present his or her position to the Plan Fiduciary orally or in writing. The Plan Fiduciary shall inform Employee or his/her beneficiary of its decision in writing within the same forty-five (45) day period, stating the specific reasons and specific provisions in the plan on which its decision is based, and identifying any medical or vocational experts whose advice was obtained in connection with the appeal, regardless of whether the Plan Fiduciary relied upon such advice in rendering the decision. If the forty-five (45) day period is not a sufficient amount of time for holding a hearing and rendering a decision, the Plan Fiduciary may extend the time to make a decision up to another forty-five (45) days, but notice of any such extension shall be given to Employee or his/her beneficiary in writing prior to the expiration of the initial 45-day period. The notice of extension shall indicate the special circumstances requiring an extension and set forth the date by which the Plan Fiduciary expects to render the decision.

The failure to file an appeal within the one hundred eighty (180) day period will cause Employee or his/her beneficiary to lose the right to appeal the denial and the right to bring a civil action under section 1132 of ERISA. In the event the Plan Fiduciary denies an appeal of a denial of a claim for benefits, any civil action to challenge the denial of such claim must be brought within one year of the date of the Plan Fiduciary's final decision on the appeal.

VI. This Amendment shall relate back to the effective date of the Agreement.

VII. In all other respects, the Agreement is hereby ratified and confirmed.

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By: /S/ Ronald J. Klosterman 12/13/07  
 Ronald J. Klosterman, President Date

By: /S/ Timothy E. Hall 12/13/07  
 Timothy E. Hall, Secretary Date

By: /S/ Ronald J. Klosterman 12/13/07  
 Ronald J. Klosterman, Employee Date

**EXHIBIT A**

**FLEXSTEEL INDUSTRIES, INC.  
 SENIOR OFFICER SUPPLEMENTAL RETIREMENT PLAN II  
 EMPLOYEE'S ELECTION OF METHOD OF PAYMENT**

Under the Senior Officer Supplemental Retirement Plan II Agreement with Flexsteel Industries, Inc., I, Ronald J. Klosterman, elect to receive the balance of my Account, when payable under the Agreement, as follows (check one of the boxes below):

- A. In a lump sum within thirty (30) days after the date which is six months after my separation from service.
- B. In two approximately equal payments, the first due within thirty days after the date which is six months after my separation from service, and the second due on January 2<sup>nd</sup> of the following calendar year.
- C. In approximate equal annual amounts over a five (5) year period with the first payment due within thirty (30) days after the date which is six months after my separation from service.
- D. In approximate equal annual amounts over a ten (10) year period with the first payment due within thirty (30) days after the event requiring payment.
- E. In approximate equal annual payments over a fifteen (15) year period with the first payment due within thirty (30) days after the date which is six months after my separation from service.
- F. In approximate equal semi-annual amounts over a five (5) year period with the first payment due within thirty (30) days after the date which is six months after my separation from service.
- G. In approximate equal semi-annual amounts over a ten (10) year period with the first payment due within thirty (30) days after the date which is six months after my separation from service.
- H. In approximate equal semi-annual amounts over a fifteen (15) year period with the first payment due within thirty (30) days after the date which is six months after my separation from service.

**EXHIBIT ONLY – NOT FOR SIGNATURE**

Ronald J. Klosterman, Employee \_\_\_\_\_ Date

**FOURTH AMENDMENT TO FLEXSTEEL INDUSTRIES, INC.  
RESTORATION RETIREMENT PLAN**

WHEREAS, a certain Restoration Retirement Plan Agreement (the "Agreement") was entered into on the 7<sup>th</sup> day of December, 2000, by and between FLEXSTEEL INDUSTRIES, INC., a Minnesota Corporation (the "Corporation") and K. Bruce Lauritsen, Edward J. Monaghan, James R. Richardson, Thomas D. Burkart, Ronald J. Klosterman, Patrick M. Crahan, Jeffrey T. Bertsch, James E. Gilbertson and Timothy E. Hall (collectively, "Employees" and individually, "Employee"); and

WHEREAS, the Agreement was subsequently amended on December 15, 2000 for the purpose of including James E. Gilbertson as an additional party to the Agreement, again on June 6, 2006 for the purpose of including Timothy E. Hall as an additional party to the Agreement and again on November 13, 2006 for purposes of complying with Internal Revenue Code section 409A; and

WHEREAS, the Corporation and Employees now desire to amend the Plan to comply with Internal Revenue Code section 409A; and

WHEREAS, K. Bruce Lauritsen has died and is not a party to this amendment; and

WHEREAS, Edward J. Monaghan has retired and is not a party to this amendment; and

WHEREAS, the Corporation is adopting this Amendment in good faith compliance with Section 409A;

NOW THEREFORE, pursuant to the provisions of paragraph 14 of the Agreement, the Agreement is hereby amended as follows:

I. Paragraph 5 of the Agreement is hereby deleted and replaced with the following:

5. Payment of Employee Account.

A. Event requiring Payment. Each Employee's account will be paid to him upon the earliest occurrence of an "Event Requiring Payment." For purposes of this agreement, an Event Requiring Payment shall be: (1) the Employee's death; (2) a disability to the Employee as defined in Paragraph 6 herein; or (3) the date which is six months after the date of Employee's separation of service from the corporation (other than separation of service due to Employee's death or disability).

B. Commencement of Payments; Designation of Beneficiary. The method of payment for each Employee's Account will be paid in accordance with the election form signed by the Employee (see Exhibit A attached). Employee may subsequently elect a different method of payment, provided the subsequent election complies with the rules of Section 409A(a)(4) of the Internal Revenue Code, or any other comparable section, and the Regulations thereunder. Additionally, the Employee shall have the right to designate a beneficiary to receive any remaining proceeds if the Employee should die prior to receiving all of his payments (see Exhibit B attached). Should the Employee fail to execute a beneficiary designation or if there is no beneficiary alive at the time of distribution, then the proceeds due to Employee will be paid to the Employee's estate. The beneficiary designation may be changed at any time during Employee's lifetime as long as the Employee is competent or by the Employee's attorney-in-fact who is specifically authorized to make the change.

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C. Permitted Delays in Payment. Notwithstanding the above, the Corporation may delay a payment due under this Agreement under any of the following circumstances, so long as all payments to similarly situated Employees are treated on a reasonably consistent basis: (1) the Corporation reasonably anticipates that if the payment were made as scheduled, the Corporation's deduction to such payment would not be permitted under section 162(m) of the Internal Revenue Code, as amended, provided that the payment is made either during the first year in which the Corporation reasonably anticipates, or should reasonably anticipate, that if the payment is made during such year, the deduction of such payment will not be barred by application of Section 162(m) or during the period beginning with the date of Employee' separation from service and ending on the later of the last day of the Corporation's fiscal year in which the Employee has a separation from service, or the 15<sup>th</sup> day of the third month following the separation from service; (2) the Corporation reasonably anticipates that the making of the payment will violate Federal securities laws or other applicable law, provided that the payment is made at the earliest date at which the Corporation reasonably anticipates that the making of the payment will not cause such violation; or (3) upon such other events as determined by the Corporation and according to such terms as are consistent with Internal Revenue Code section 409A or prescribed by the Commissioner of Internal Revenue.

II. Paragraph 13 of the Agreement is hereby deleted and replaced with the following:

13. Interpretation, Construction, and Administration of Agreement. The Corporation's Chief Financial Officer, or the individual performing comparable duties, shall act as Plan Administrator. The Plan Administrator shall have full power and authority to interpret, construe and administer this Agreement and the Plan Administrator's interpretation and construction thereof, and actions thereunder, including any valuation of the Deferred Compensation Account, or the amount or recipient of the payment to be made therefrom, shall be binding and conclusive on all persons for all purposes, unless review is requested in accordance with the Claims Procedures set forth in paragraphs 25 and 26 below. The review of any decision by the Plan Administrator pursuant to the Claims Procedures shall be performed by the individual or group of individuals appointed by the Nominating and Compensation Committee of the Board of Directors to act as Plan Fiduciary. Neither the Plan Administrator nor the Plan Fiduciary shall be liable to any person for any action taken or omitted in connection with the interpretation and administration of this Agreement unless attributable to his or her own willful misconduct or lack of good faith.

III. Paragraph 14 of the Agreement is hereby deleted and replaced with the following:



14. Amendments. Corporation shall have the right to amend this Agreement without Employee's approval for the purpose of including additional employees under this agreement or to comply with Federal tax laws and regulations to insure that all amounts deferred are deferred for tax purposes. Any other amendment may only be made with the consent of all of the parties.

IV. The following provisions shall be added to the Agreement and numbered as Paragraphs 21-24:

21. Change of Control. For the purpose of this Agreement, a "Change of Control" shall mean any of the following:

A. When any individual, entity, or group becomes the beneficial owner of 50% or more of either the total fair market value of the then-outstanding shares of stock of the Corporation or the total voting power of the then-outstanding stock of the Corporation entitled to vote generally in the election of directors.

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B. When individuals who, as of the date hereof, constitute the Board of Directors (the "Incumbent Directors") cease for any reason to constitute at least a majority of the Board during any 12-month period; **provided however**, that any individual becoming a director subsequent to the date hereof whose election or nomination for election by the Company's shareholders was approved by a vote of at least a majority of the Incumbent Directors then on the Board shall be considered as though such individual was an Incumbent Director, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board.

C. Upon the consummation of a reorganization, merger, statutory share exchange, or consolidation (or similar corporate transaction) involving the Corporation or any of its subsidiaries, a sale or other disposition of all or substantially all of the assets of the Corporation, or the acquisition of assets or stock of another entity by the Corporation or any of its subsidiaries (each a "Business Combination"), in each case, unless, immediately following such Business Combination:

- (i) substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the total fair market value of the then-outstanding shares of stock (or, for a non-corporate entity, equivalent securities) and the total voting power of the then-outstanding voting stock entitled to vote generally in the election of directors (or, for a non-corporate entity, equivalent governing body), as the case may be, of (A) the entity resulting from such Business Combination (the "Surviving Corporation") or (B) if applicable, the ultimate parent entity that directly or indirectly has beneficial ownership of 80% or more of the voting securities eligible to elect directors of the Surviving Corporation (the "Parent Corporation"), in substantially the same proportion as their ownership, immediately prior to the Business Combination, of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be;
- (ii) no individual, entity, or group, directly or indirectly acquires, or has acquired during the 12-month period ending on the date of the most recent acquisition, ownership of 30% or more of the total voting power of the stock of the Parent Corporation (or if there is no Parent Corporation, the Surviving Corporation); and
- (iii) at least a majority of the members of the board of directors of the Parent Corporation (or if there is no Parent Corporation, the Surviving Corporation) following the consummation of the Business Combination were Incumbent Directors at the time of the Board's approval of the execution of the initial agreement providing for such Business Combination.

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D. Upon approval by the shareholders of the Corporation of a complete liquidation or dissolution of the company.

22. Definition of "Group." For purposes of Paragraph 21, above, persons will not be considered to be acting as a group solely because they purchase or own stock of the same corporation at the same time, or as a result of the same public offering. However, persons will be considered to be acting as a group if they meet the definition set forth in section 13(d)(3) of the Securities Exchange Act of 1934, or if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the corporation. If a person, including an entity, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such shareholder is considered to be acting as a group with other shareholders only with respect to the ownership in that corporation before the transaction giving rise to the change and not with respect to the ownership interest in the other corporation.

23. Definition of "Beneficial Owner." For purposes of Paragraph 21, above, the term "beneficial owner" shall be defined by Rule 13d-3 of the Rules promulgated under the Securities Exchange Act of 1934.

24. Payment upon Change of Control. Notwithstanding any other provision of this Agreement to the contrary, in the event of a Change of Control, Employee's interest in the benefits shall be distributed in a lump sum; provided however, that the amount vested and distributed by reason of this provision shall not exceed the amount which would cause the amount vested and distributed to be considered an "excess parachute payment" under section 280G of the Internal Revenue Code, as amended.

V. The following provision shall be added to the Agreement and numbered as Paragraph 25:

25. Claims Procedure.

A. Notice of Initial Decision. Any decision by the Plan Administrator denying a claim by Employee or Employee's beneficiary for benefits under this Plan shall be stated in writing and delivered or mailed to the Employee or such beneficiary within a reasonable period of time, but no later than ninety (90) days after receipt of the claim by the Plan Administrator. Such decision shall set forth the specific reasons for the denial, with

reference to the specific plan provisions on which the denial is based, written to the best of the Plan Administrator's ability in a manner calculated to be understood without legal or actuarial counsel. The decision shall also provide a description of any additional material or information necessary for Employee or his/her beneficiary to perfect the claim and an explanation of why such material is necessary. The decision shall contain a description of the Corporation's review procedures and the time limits applicable to such procedures, and inform Employee or his/her beneficiary of the right to bring a civil action under section 1132 of ERISA following an adverse determination on review. If the Plan Administrator determines there are special circumstances which require additional time to make a decision, the Plan Administrator shall notify Employee or his/her beneficiary of the date by which a decision is expected to be made, and may extend the time for up to an additional ninety (90) days.

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- B. Employee's right to Review. If the Plan Administrator determines Employee or his/her beneficiary is not eligible for benefits, or if Employee or his/her beneficiary believes he or she is entitled to greater or different benefits, the Employee or his/her beneficiary shall have the opportunity to have his or her claim reviewed by filing a petition for review with the Plan Fiduciary within sixty (60) days after receipt of the Plan Administrator's written notice of the decision denying benefits. The petition shall state the specific reasons Employee or his/her beneficiary believes he or she is entitled to benefits or greater or different benefits. Within sixty (60) days after the Plan Fiduciary's receipt of the petition, the Plan Fiduciary shall afford Employee or his/her beneficiary, and his or her legal counsel, if any, an opportunity to present his or her position to the Plan Fiduciary orally or in writing. The Plan Fiduciary shall inform Employee or his/her beneficiary of its decision in writing within the same sixty (60) day period, stating the specific reasons and specific provisions in the plan on which its decision is based. If the sixty (60) day period is not a sufficient amount of time for holding a hearing and rendering a decision, the Plan Fiduciary may extend the time to render a decision for up to another sixty (60) days, but notice of any such extension shall be given to Employee or his/her beneficiary in writing prior to the expiration of the initial 60-day period.

The failure to file an appeal within the sixty (60) day period will cause Employee or his/her beneficiary to lose the right to appeal the denial and the right to bring a civil action under section 1132 of ERISA. In the event the Plan Fiduciary denies an appeal of a denial of a claim for benefits, any civil action to challenge the denial of such claim must be brought within one year of the date of the Plan Fiduciary's final decision on the appeal.

VI. The following paragraph shall be added to the Agreement and numbered as Paragraph 26.

26. Claim Procedure—Disability Benefits.

- A. Notice of Initial Decision. Any decision by the Plan Administrator denying a claim by Employee or Employee's beneficiary for disability benefits under this Plan shall be stated in writing and delivered or mailed to the Employee or such beneficiary within a reasonable period of time, but no later than forty-five (45) days after receipt of the claim by the Plan Administrator. Such decision shall set forth the specific reasons for the denial, with reference to the specific plan provisions on which the denial is based, written to the best of the Plan Administrator's ability in a manner calculated to be understood without legal or actuarial counsel. The decision shall also provide a description of any additional material or information necessary for Employee or his/her beneficiary to perfect the claim and an explanation of why such material is necessary. The decision shall contain a description of the Company's review procedures and the time limits applicable to such procedures, and inform Employee or his/her beneficiary of the right to bring a civil action under section 1132 of ERISA following an adverse determination on review. If the Plan Administrator determines there are special circumstances which require additional time to make a decision, the Plan Administrator shall notify Employee or his/her beneficiary prior to the expiration of the initial 45-day period, of the circumstances requiring the extension of time and the date by which a decision is expected to be made, and may extend the time for up to an additional thirty (30) days. If, prior to the end of the first 30-day extension period, the Plan Administrator determines that, due to matters beyond the control of the Plan Administrator, a decision cannot be rendered, the period for making a decision may be extended for up to an additional thirty (30) days, provided that the Plan Administrator notifies the Employee or his/her beneficiary prior to expiration of the first 30-day extension period, of the circumstances requiring the extension and the date as of which the plan expects to render a decision. In the case of any extension, the notice of extension shall specifically explain the standards on which entitlement to disability benefits is based, the unresolved issues that prevent a decision on the claim, and the additional information needed to resolve those issues. The Employee or his/her beneficiary shall be given at least 45 days after notice of the extension to provide such additional information.

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- B. Employee's right to Review. If the Plan Administrator determines Employee or his/her beneficiary is not eligible for benefits, or if Employee or his/her beneficiary believes he or she is entitled to greater or different benefits, the Employee or his/her beneficiary shall have the opportunity to have his or her claim reviewed by the Plan Fiduciary by filing a petition for review with the Plan Fiduciary within one hundred eighty (180) days after receipt of the Administrator's written notice of the decision denying benefits. The petition shall state the specific reasons Employee or his/her beneficiary believes he or she is entitled to benefits or greater or different benefits. In conducting the review, the Plan Fiduciary shall not give any deference to the initial adverse benefit determination. In addition, the Plan Fiduciary conducting such review shall not be the individual who made the initial adverse benefit determination, nor the subordinate of such individual. In deciding an appeal of any adverse benefit determination based on a medical judgment, the Plan Fiduciary shall consult with a health care professional who has appropriate training and experience in the field of medicine involved in the medical judgment, and who is neither an individual that was previously consulted in connection with the initial adverse benefit determination that is the subject of review, nor the subordinate of any such individual.

Within forty-five (45) days after the Plan Fiduciary's receipt of the petition, the Plan Fiduciary shall afford Employee or his/her beneficiary, and his or her legal counsel, if any, an opportunity to present his or her position to the Plan Fiduciary orally or in writing. The Plan Fiduciary shall inform Employee or his/her beneficiary of its decision in writing within the same forty-five (45) day period, stating the specific reasons and specific provisions in the plan on which its decision is based, and identifying any medical or vocational experts whose advice was obtained in connection with the appeal, regardless of whether the Plan Fiduciary relied upon such advice in rendering the decision. If the forty-five (45) day period is not a sufficient amount of time for holding a hearing and rendering a decision, the Plan Fiduciary may extend the

time to make a decision up to another forty-five (45) days, but notice of any such extension shall be given to Employee or his/her beneficiary in writing prior to the expiration of the initial 45-day period. The notice of extension shall indicate the special circumstances requiring an extension and set forth the date by which the Plan Fiduciary expects to render the decision.

The failure to file an appeal within the one hundred eighty (180) day period will cause Employee or his/her beneficiary to lose the right to appeal the denial and the right to bring a civil action under section 1132 of ERISA. In the event the Plan Fiduciary denies an appeal of a denial of a claim for benefits, any civil action to challenge the denial of such claim must be brought within one year of the date of the Plan Fiduciary's final decision on the appeal.

VII. This amendment shall relate back to the effective date of the Agreement.

VIII. In all other respects, the Agreement is hereby ratified and confirmed.

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IN WITNESS WHEREOF, the Corporation and the Employees have caused this Fourth Amendment to Flexsteel Industries, Inc. Restoration Retirement Plan to be executed this 13th day of December, 2007.

**FLEXSTEEL INDUSTRIES, INC.**

By: /S/ Ronald J. Klosterman  
Ronald J. Klosterman, President

By: /S/ Timothy E. Hall  
Timothy E. Hall, Secretary

**EMPLOYEES**

/S/ Ronald J. Klosterman  
Ronald J. Klosterman, Employee

/S/ Timothy E. Hall  
Timothy E. Hall, Employee

/S/ James R. Richardson  
James R. Richardson, Employee

/S/ Jeffrey T. Bertsch  
Jeffrey T. Bertsch, Employee

/S/ Thomas D. Burkart  
Thomas D. Burkart, Employee

/S/ Patrick M. Crahan  
Patrick M. Crahan, Employee

/S/ James E. Gilbertson  
James E. Gilbertson, Employee

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**EXHIBIT A**

**FLEXSTEEL INDUSTRIES, INC.  
RESTORATION RETIREMENT PLAN  
EMPLOYEE'S ELECTION OF METHOD OF PAYMENT**

Under the Restoration Retirement Plan Agreement with Flexsteel Industries, Inc., I [INSERT OFFICER NAME], elect to receive payment of my Deferred Compensation Account as follows (check one of the boxes below):

- A. In a lump sum within thirty days of the Event Requiring Payment.
- B. In approximate equal annual amounts over a five year period with the first payment due within thirty days of the Event Requiring Payment.
- C. In approximate equal annual amounts over a ten year period with the first payment due within thirty days of the Event Requiring Payment.
- D. In approximate equal semi-annual amounts over a five year period with the first payment due within thirty days after the Event Requiring Payment.
- E. In approximate equal semi-annual amounts over a ten year period with the first payment due within thirty days after the Event Requiring Payment.

\*\*\* If the Event Requiring Payment is Employee's separation of service from the Corporation, payment under any of the above options will be no earlier than the date which is six months after the date of Employee's separation from service.

**EXHIBIT ONLY – NOT FOR SIGNATURE**

\_\_\_\_\_  
[INSERT OFFICER NAME] Date  
Employee



**THIRD AMENDMENT TO FLEXSTEEL INDUSTRIES, INC.  
VOLUNTARY DEFERRED COMPENSATION PLAN**

WHEREAS, a certain Voluntary Deferred Compensation Plan Agreement (the "Agreement") was entered into on the 13<sup>th</sup> day of June, 2000, by and between FLEXSTEEL INDUSTRIES, INC., a Minnesota Corporation (the "Corporation") and K. Bruce Lauritsen, Edward J. Monaghan, James R. Richardson, Thomas D. Burkart, Ronald J. Klosterman, Patrick M. Crahan, Jeffrey T. Bertsch, and James E. Gilbertson (collectively, "Employees" and individually, "Employee"); and

WHEREAS, the Agreement was subsequently amended on December 15, 2000 for the purpose of including James E. Gilbertson as an additional party to the Agreement and again on November 13, 2006 for purposes of complying with Internal Revenue Code section 409A; and

WHEREAS, K. Bruce Lauritsen has died and is not a party to this amendment; and

WHEREAS, Edward J. Monaghan has retired and is not a party to this amendment; and

WHEREAS, pursuant to paragraph 15 of the Agreement, Corporation has the right to amend the Agreement without Employees' approval for the purpose of including additional employees under the Agreement, and may otherwise amend the Agreement with the consent of Employees; and

WHEREAS, Corporation wishes to amend the agreement for the purposes of including an additional employee under the Agreement and complying with Internal Revenue Code section 409A; and

WHEREAS, the undersigned additional employee wishes to become a party to the Agreement by execution of this Third Amendment, and the Corporation and Employees now desire to amend the Plan to comply with section 409A; and

WHEREAS, the Corporation and the Employees are adopting this Amendment in good faith compliance with Section 409A of the Internal Revenue Code;

NOW THEREFORE, pursuant to the provisions of paragraph 15 of the Agreement, the Agreement is hereby amended as follows:

- I. The Agreement is hereby amended to add Timothy E. Hall as a party to the Agreement, effective December 10, 2007.
- II. All references in the Agreement to "Employees" or "Employee" shall include Timothy E. Hall as though he were a party to the original Agreement.

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III. Paragraph 7 of the Agreement is hereby deleted and replaced with the following:

**7. Payment of Deferred Compensation Account.**

- A. **Event Requiring Payment.** Each Employee's account will be paid to him upon the earliest occurrence of an "Event Requiring Payment." For purposes of this agreement, an Event Requiring Payment shall be: (1) the Employee's death; (2) a disability to the Employee as defined in Paragraph 8 herein; or (3) the date which is six months after the date of Employee's separation of service from the Corporation (other than separation of service due to Employee's death or disability).
- B. **Commencement of Payments; Designation of Beneficiary.** The method of payment for each Employee's Account will be paid in accordance with the election form signed by the Employee (see Exhibit E attached). The Employee may subsequently elect a different method of payment, provided the subsequent election complies with the rules of Section 409A(a)(4) of the Internal Revenue Code or any other comparable section, and the Regulations thereunder. Additionally, the Employee shall have the right to designate a beneficiary to receive any remaining proceeds if the Employee should die prior to receiving all of his payments (see Exhibit F attached). Should the Employee fail to execute a beneficiary designation or if there is no beneficiary alive at the time of distribution, then the proceeds due to Employee will be paid to the Employee's estate. The beneficiary designation may be changed at any time during Employee's lifetime as long as the Employee is competent or by the Employee's attorney-in-fact who is specifically authorized to make the change.
- C. **Permitted Delays in Payment.** Notwithstanding the above, the Corporation may delay a payment due under this Agreement under any of the following circumstances, so long as all payments to similarly situated Employees are treated on a reasonably consistent basis: (1) the Corporation reasonably anticipates that if the payment were made as scheduled, the Corporation's deduction to such payment would not be permitted under section 162(m) of the Internal Revenue Code, as amended, provided that the payment is made either during the first year in which the Corporation reasonably anticipates, or should reasonably anticipate, that if the payment is made during such year, the deduction of such payment will not be barred by application of Section 162(m) or during the period beginning with the date of Employee' separation from service and ending on the later of the last day of the Corporation's fiscal year in which the Employee has a separation from service, or the 15<sup>th</sup> day of the third month following the separation from service; (2) the Corporation reasonably anticipates that the making of the payment will violate Federal securities laws or other applicable law, provided that the payment is made at the earliest date at which the Corporation reasonably anticipates that the making of the payment will not cause such violation; or (3) upon such other events as determined by the Corporation and according to such terms as are consistent with Internal Revenue Code section 409A or prescribed by the Commissioner of Internal Revenue.

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IV. Paragraph 14 of the Agreement is hereby deleted and replaced with the following:

14. Interpretation, Construction, and Administration of Agreement. The Corporation's Chief Financial Officer, or the individual performing comparable duties, shall act as Plan Administrator. The Plan Administrator shall have full power and authority to interpret, construe and administer this Agreement and the Plan Administrator's interpretation and construction thereof, and actions thereunder, including any valuation of the Deferred Compensation Account, or the amount or recipient of the payment to be made therefrom, shall be binding and conclusive on all persons for all purposes, unless review is requested in accordance with the Claims Procedures set forth in paragraphs 25 and 26 below. The review of any decision by the Plan Administrator pursuant to the Claims Procedures shall be performed by the individual or group of individuals appointed by the Nominating and Compensation Committee of the Board of Directors to act as Plan Fiduciary. Neither the Plan Administrator nor the Plan Fiduciary shall be liable to any person for any action taken or omitted in connection with the interpretation and administration of this Agreement unless attributable to his or her own willful misconduct or lack of good faith.

V. Paragraph 15 of the Agreement is hereby deleted and replaced with the following:

15. Amendments. The Corporation shall have the right to amend this Agreement without Employees' approval for the purpose of including additional employees under this Agreement or to comply with Federal tax laws and regulations to insure that all amounts deferred are deferred for tax purposes. Any other amendments may only be made with the consent of all parties.

VI. The following provisions shall be added to the Agreement and numbered as Paragraphs 21-24.

21. Change of Control. For the purpose of this Agreement, a "Change of Control" shall mean any of the following:

- A. When any individual, entity, or group becomes the beneficial owner of 50% or more of either the total fair market value of the then-outstanding shares of stock of the Corporation or the total voting power of the then-outstanding stock of the Corporation entitled to vote generally in the election of directors.
- B. When individuals who, as of the date hereof, constitute the Board of Directors (the "Incumbent Directors") cease for any reason to constitute at least a majority of the Board during any 12-month period; **provided however**, that any individual becoming a director subsequent to the date hereof whose election or nomination for election by the Company's shareholders was approved by a vote of at least a majority of the Incumbent Directors then on the Board shall be considered as though such individual was an Incumbent Director, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board.

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C. Upon the consummation of a reorganization, merger, statutory share exchange, or consolidation (or similar corporate transaction) involving the Corporation or any of its subsidiaries, a sale or other disposition of all or substantially all of the assets of the Corporation, or the acquisition of assets or stock of another entity by the Corporation or any of its subsidiaries (each a "Business Combination"), in each case, unless, immediately following such Business Combination:

- (i) substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the total fair market value of the then-outstanding shares of stock (or, for a non-corporate entity, equivalent securities) and the total voting power of the then-outstanding voting stock entitled to vote generally in the election of directors (or, for a non-corporate entity, equivalent governing body), as the case may be, of (A) the entity resulting from such Business Combination (the "Surviving Corporation") or (B) if applicable, the ultimate parent entity that directly or indirectly has beneficial ownership of 80% or more of the voting securities eligible to elect directors of the Surviving Corporation (the "Parent Corporation"), in substantially the same proportion as their ownership, immediately prior to the Business Combination, of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be;
- (ii) no individual, entity, or group, directly or indirectly acquires, or has acquired during the 12-month period ending on the date of the most recent acquisition, ownership of 30% or more of the total voting power of the stock of the Parent Corporation (or if there is no Parent Corporation, the Surviving Corporation); and
- (iii) at least a majority of the members of the board of directors of the Parent Corporation (or if there is no Parent Corporation, the Surviving Corporation) following the consummation of the Business Combination were Incumbent Directors at the time of the Board's approval of the execution of the initial agreement providing for such Business Combination.

D. Upon approval by the shareholders of the Corporation of a complete liquidation or dissolution of the company.

22. Definition of "Group." For purposes of Paragraph 21, above, persons will not be considered to be acting as a group solely because they purchase or own stock of the same corporation at the same time, or as a result of the same public offering. However, persons will be considered to be acting as a group if they meet the definition set forth in section 13(d)(3) of the Securities Exchange Act of 1934, or if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the corporation. If a person, including an entity, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such shareholder is considered to be acting as a group with other shareholders only with respect to the ownership in that corporation before the transaction giving rise to the change and not with respect to the ownership interest in the other corporation.

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23. Definition of “Beneficial Owner.” For purposes of Paragraph 21, above, the term “beneficial owner” shall be defined by Rule 13d-3 of the Rules promulgated under the Securities Exchange Act of 1934.

24. Payment upon Change of Control. Notwithstanding any other provision of this Agreement to the contrary, in the event of a Change of Control, Employee’s interest in the benefits shall be distributed in a lump sum; provided however, that the amount vested and distributed by reason of this provision shall not exceed the amount which would cause the amount vested and distributed to be considered an “excess parachute payment” under section 280G of the Internal Revenue Code, as amended.

VII. The following provision shall be added to the Agreement and numbered as Paragraph 25:

25. Claims Procedure.

A. Notice of Initial Decision. Any decision by the Plan Administrator denying a claim by Employee or Employee’s beneficiary for benefits under this Plan shall be stated in writing and delivered or mailed to the Employee or such beneficiary within a reasonable period of time, but no later than ninety (90) days after receipt of the claim by the Plan Administrator. Such decision shall set forth the specific reasons for the denial, with reference to the specific plan provisions on which the denial is based, written to the best of the Plan Administrator’s ability in a manner calculated to be understood without legal or actuarial counsel. The decision shall also provide a description of any additional material or information necessary for Employee or his/her beneficiary to perfect the claim and an explanation of why such material is necessary. The decision shall contain a description of the Corporation’s review procedures and the time limits applicable to such procedures, and inform Employee or his/her beneficiary of the right to bring a civil action under section 1132 of ERISA following an adverse determination on review. If the Plan Administrator determines there are special circumstances which require additional time to make a decision, the Plan Administrator shall notify Employee or his/her beneficiary of the date by which a decision is expected to be made, and may extend the time for up to an additional ninety (90) days.

B. Employee’s right to Review. If the Plan Administrator determines Employee or his/her beneficiary is not eligible for benefits, or if Employee or his/her beneficiary believes he or she is entitled to greater or different benefits, the Employee or his/her beneficiary shall have the opportunity to have his or her claim reviewed by filing a petition for review with the Plan Fiduciary within sixty (60) days after receipt of the Plan Administrator’s written notice of the decision denying benefits. The petition shall state the specific reasons Employee or his/her beneficiary believes he or she is entitled to benefits or greater or different benefits. Within sixty (60) days after the Plan Fiduciary’s receipt of the petition, the Plan Fiduciary shall afford Employee or his/her beneficiary, and his or her legal counsel, if any, an opportunity to present his or her position to the Plan Fiduciary orally or in writing. The Plan Fiduciary shall inform Employee or his/her beneficiary of its decision in writing within the same sixty (60) day period, stating the specific reasons and specific provisions in the plan on which its decision is based. If the sixty (60) day period is not a sufficient amount of time for holding a hearing and rendering a decision, the Plan Fiduciary may extend the time to render a decision for up to another sixty (60) days, but notice of any such extension shall be given to Employee or his/her beneficiary in writing prior to the expiration of the initial 60-day period.

The failure to file an appeal within the sixty (60) day period will cause Employee or his/her beneficiary to lose the right to appeal the denial and the right to bring a civil action under section 1132 of ERISA. In the event the Plan Fiduciary denies an appeal of a denial of a claim for benefits, any civil action to challenge the denial of such claim must be brought within one year of the date of the Plan Fiduciary’s final decision on the appeal.

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VIII. The following paragraph shall be added to the agreement and numbered as Paragraph 26.

26. Claim Procedure—Disability Benefits.

A. Notice of Initial Decision. Any decision by the Plan Administrator denying a claim by Employee or Employee’s beneficiary for disability benefits under this Plan shall be stated in writing and delivered or mailed to the Employee or such beneficiary within a reasonable period of time, but no later than forty-five (45) days after receipt of the claim by the Plan Administrator. Such decision shall set forth the specific reasons for the denial, with reference to the specific plan provisions on which the denial is based, written to the best of the Plan Administrator’s ability in a manner calculated to be understood without legal or actuarial counsel. The decision shall also provide a description of any additional material or information necessary for Employee or his/her beneficiary to perfect the claim and an explanation of why such material is necessary. The decision shall contain a description of the Company’s review procedures and the time limits applicable to such procedures, and inform Employee or his/her beneficiary of the right to bring a civil action under section 1132 of ERISA following an adverse determination on review. If the Plan Administrator determines there are special circumstances which require additional time to make a decision, the Plan Administrator shall notify Employee or his/her beneficiary prior to the expiration of the initial 45-day period, of the circumstances requiring the extension of time and the date by which a decision is expected to be made, and may extend the time for up to an additional thirty (30) days. If, prior to the end of the first 30-day extension period, the Plan Administrator determines that, due to matters beyond the control of the Plan Administrator, a decision cannot be rendered, the period for making a decision may be extended for up to an additional thirty (30) days, provided that the Plan Administrator notifies the Employee or his/her beneficiary prior to expiration of the first 30-day extension period, of the circumstances requiring the extension and the date as of which the plan expects to render a decision. In the case of any extension, the notice of extension shall specifically explain the standards on which entitlement to disability benefits is based, the unresolved issues that prevent a decision on the claim, and the additional information needed to resolve those issues. The Employee or his/her beneficiary shall be given at least 45 days after notice of the extension to provide such additional information.

B. Employee’s right to Review. If the Plan Administrator determines Employee or his/her beneficiary is not eligible for benefits, or if Employee or his/her beneficiary believes he or she is entitled to greater or different benefits, the Employee or his/her beneficiary shall have the opportunity to have his or her claim reviewed by the Plan Fiduciary by filing a petition for review with the Plan Fiduciary within one hundred eighty (180) days after receipt of the Administrator’s written notice of the decision denying benefits. The petition shall state the specific reasons Employee or his/her beneficiary believes he or she is entitled to benefits or greater or different benefits. In conducting the review, the Plan Fiduciary shall not give any deference to the initial adverse benefit determination. In addition, the Plan Fiduciary conducting such review shall not be the individual who made the initial adverse benefit determination, nor the subordinate of such individual. In deciding an appeal of any adverse benefit determination based on a medical judgment, the Plan Fiduciary shall consult with a health care professional who has

appropriate training and experience in the field of medicine involved in the medical judgment, and who is neither an individual that was previously consulted in connection with the initial adverse benefit determination that is the subject of review, nor the subordinate of any such individual.

Within forty-five (45) days after the Plan Fiduciary's receipt of the petition, the Plan Fiduciary shall afford Employee or his/her beneficiary, and his or her legal counsel, if any, an opportunity to present his or her position to the Plan Fiduciary orally or in writing. The Plan Fiduciary shall inform Employee or his/her beneficiary of its decision in writing within the same forty-five (45) day period, stating the specific reasons and specific provisions in the plan on which its decision is based, and identifying any medical or vocational experts whose advice was obtained in connection with the appeal, regardless of whether the Plan Fiduciary relied upon such advice in rendering the decision. If the forty-five (45) day period is not a sufficient amount of time for holding a hearing and rendering a decision, the Plan Fiduciary may extend the time to make a decision up to another forty-five (45) days, but notice of any such extension shall be given to Employee or his/her beneficiary in writing prior to the expiration of the initial 45-day period. The notice of extension shall indicate the special circumstances requiring an extension and set forth the date by which the Plan Fiduciary expects to render the decision.

The failure to file an appeal within the one hundred eighty (180) day period will cause Employee or his/her beneficiary to lose the right to appeal the denial and the right to bring a civil action under section 1132 of ERISA. In the event the Plan Fiduciary denies an appeal of a denial of a claim for benefits, any civil action to challenge the denial of such claim must be brought within one year of the date of the Plan Fiduciary's final decision on the appeal.

IX. This Amendment shall relate back to the effective date of the Agreement.

X. In all other respects, the Agreement is hereby ratified and confirmed.

IN WITNESS WHEREOF, the Corporation and the Employees have executed this THIRD AMENDMENT TO FLEXSTEEL INDUSTRIES, INC. VOLUNTARY DEFERRED COMPENSATION PLAN on this 13th day of December, 2007.

**FLEXSTEEL INDUSTRIES, INC.**

By: /S/ Ronald J. Klosterman  
Ronald J. Klosterman, President

By: /S/ Timothy E. Hall  
Timothy E. Hall, Secretary

**EMPLOYEES**

/S/ Ronald J. Klosterman  
Ronald J. Klosterman, Employee

/S/ Timothy E. Hall  
Timothy E. Hall, Employee

/S/ James R. Richardson  
James R. Richardson, Employee

/S/ Jeffrey T. Bertsch  
Jeffrey T. Bertsch, Employee

/S/ Thomas D. Burkart  
Thomas D. Burkart, Employee

/S/ Patrick M. Crahan  
Patrick M. Crahan, Employee

/S/ James E. Gilbertson  
James E. Gilbertson, Employee

**EXHIBIT E**

**FLEXSTEEL INDUSTRIES, INC.  
VOLUNTARY DEFERRED COMPENSATION PLAN  
EMPLOYEE'S ELECTION OF METHOD OF PAYMENT**

Under the Voluntary Deferred Compensation Plan Agreement with Flexsteel Industries, Inc., I [INSERT OFFICER NAME], elect to receive payment of my Deferred Compensation Account as follows (check one of the boxes below):

- A. In a lump sum within thirty days of the Event Requiring Payment.
- B. In approximate equal annual amounts over a five year period with the first payment due within thirty days of the Event Requiring Payment.
- C. In approximate equal annual amounts over a ten year period with the first payment due within thirty days of the Event Requiring Payment.
- D. In approximate equal semi-annual amounts over a five year period with the first payment due within thirty days after the Event Requiring Payment.



o E. In approximate equal semi-annual amounts over a ten year period with the first payment due within thirty days after the Event Requiring Payment.

\*\*\* If the Event Requiring Payment is Employee's separation of service from the Corporation, payment under any of the above options will be no earlier than the date which is six months after the date of Employee's separation from service.

**EXHIBIT ONLY – NOT FOR SIGNATURE**

\_\_\_\_\_  
[INSERT OFFICER NAME]  
Employee

\_\_\_\_\_  
Date