



Flexsteel Industries, Inc.  
**ANNUAL REPORT** **2011**  
Fiscal Year ending June 30, 2011

## Financial Highlights

(Amounts in thousands, except per share data)

For the Years Ended June 30,	2011	2010	2009
Net sales .....	\$ 339,426	\$ 326,466	\$ 324,158
Operating income (1) (2) .....	15,864	17,529	(2,272)
Income before income taxes (1) (2) .....	16,207	17,451	(2,579)
Net income (1) (2) .....	10,417	10,801	(1,509)
Weighted Average Common Shares Outstanding - Diluted .....	6,929	6,697	6,576
Earnings per share of Common Stock - Diluted (1) (2) .....	\$ 1.50	\$ 1.61	\$ (0.23)
Cash dividends declared per common share .....	\$ 0.30	\$ 0.20	\$ 0.36
Book value per share .....	19.16	17.70	16.27
At June 30,			
Working capital .....	\$ 100,683	\$ 90,800	\$ 78,416
Total assets .....	164,677	157,670	150,971
Total liabilities .....	36,104	40,058	43,973
Shareholders' equity .....	128,573	117,612	106,998

(1) Fiscal 2011 income and per share amounts include charges consisting of employee separation costs and inventory write down related to closing a manufacturing facility of \$1.0 million (after tax) or \$0.15 per share.

(2) Fiscal 2009 loss and per share amounts reflect facility consolidation and other costs (after tax) of \$1.5 million or \$0.23 per share.

## New Corporate Headquarters announced

After 75 years in our current location, Flexsteel will break ground in September 2011 for a new corporate headquarters in Dubuque, Iowa, near the Mississippi River. The four-story building will feature 40,000 square feet of office space. The building is designed with large windows to make use of natural light creating an open, airy ambiance. Flexsteel and DMI furniture will be utilized throughout the building.

The new facility is designed to be energy-efficient and environmentally friendly. Approximately 100 employees will relocate to the new office and there is room for expansion to take advantage of future growth opportunities. These employees

provide administrative and management services to the global operations of Flexsteel and its wholly-owned subsidiary DMI.

Additionally, these employees manage residential and commercial products in areas including design, manufacturing, marketing, supply-chain management, purchasing, engineering, advertising, customer service, credit management, information systems and accounting.



## DMI celebrates 100 years in furniture

Founded in 1911 in Huntingburg, Indiana near abundant supplies of native timber, the company was first known as Huntingburg Furniture Company. After decades of success, growth and expansion, including the establishment of additional manufacturing facilities and trucking distribution centers across the U.S., the company was sold in 1964 to Dolly Madison Foods and became Dolly Madison Industries, Inc. More success followed and by the late 1970s, DMI Furniture owned and operated eight manufacturing facilities and five supplier plants. In the early-1980s, the headquarters was moved to Louisville, Kentucky where it remains today. After sourcing in China proved

successful, the company established a presence in southern China during

the early 1990s. Later in that decade, DMI launched Wynwood, an elegant line of upscale furniture, and HomeStyles, an online source for casual furnishings, as well as DMI Office, which supplies stylish commercial furniture. During that time, DMI expanded its Asia infrastructure to include Vietnam and Thailand. Acquired by Flexsteel Industries, Inc., in 2003, DMI remains a respected and thriving marketer of quality product.



## To Our Shareholders:

Fiscal year 2011 was a very challenging year. Continuing high unemployment, declining consumer confidence, lack of recovery in the housing sector and diminishing consumer discretionary spending all negatively impacted our opportunities for growth. In spite of these challenges, we stayed focused on the strategies that we established and executed since the onset of the “Great Recession” of 2008. This fiscal year we built upon our success in fiscal year 2010 and recorded modest growth in sales for both Residential and Commercial products.

Founded in 1893, our Company has survived and thrived during the Great Depression, many recessions and other periods of economic uncertainty. Our corporate culture, long and short-term business strategies, and core values enable our company to continue to succeed in this economic environment.

Our core principles remain the same: the integrity of our associates allows us to maintain and grow customer and supplier loyalty, our product quality strengthens these relationships and our product design and innovation provide opportunities for growth.

Our financial results for fiscal year 2011 built upon the strong turnaround experienced in fiscal year 2010. Net sales were \$339.4 million in fiscal year 2011 compared to \$326.5 million in the prior year, an increase of 4.0%. Residential net sales were \$258.1 million compared to \$246.0 million in fiscal year 2010, an increase of 4.9%. Commercial net sales were \$81.3 million for fiscal year 2011, an increase of 1.1% from last year’s net sales of \$80.5 million.

We maintained our gross margin in spite of significant cost increases for raw materials and finished products. We closed our last domestic commercial office manufacturing facility and downsized our Riverside, CA, residential manufacturing facility to match current demand levels. Both of these adjustments reduced fixed overhead and will help us maintain margins in fiscal year 2012 and beyond.

Adjusted operating income in fiscal year 2011 was \$17.8 million excluding the costs associated with the commercial office facility closing and the related inventory write down. This compares to fiscal year 2010 operating income of \$17.5 million.

Net income for fiscal year 2011 was \$10.4 million compared to record net income of \$10.8 million in fiscal year 2010.

We have continued to strengthen our balance sheet over the last two fiscal years. We ended fiscal year 2011 with working capital of \$100 million. This includes cash on hand of \$18 million. We have no bank borrowings and shareholder equity is \$129 million or \$19.16 per share. During the year, the Board of Directors approved dividend payments of \$0.30 per share, an increase of 50% from prior year dividend payments of \$0.20 per share.

We would like to thank our shareholders, Board of Directors, our associates and our customers and suppliers for their support.

Best regards,



Ronald J. Klosterman  
President and  
Chief Executive Officer



L. Bruce Boylen  
Chairman of the Board

## Board members Boylen and Holloran retire

Longtime Flexsteel Industries, Inc., board members Bruce Boylen and Tom Holloran, announced their retirement, effective December 2011.

Bruce Boylen joined the board in 1994, bringing with him an extensive background in the recreational vehicle industry and manufacturing operations. His career with Fleetwood Enterprises, a recreational vehicle industry leader, involved every facet of development, manufacturing and management. Bruce served and led committees on the Flexsteel board and was named Chairman of the Board in 2000.

Tom Holloran has provided extraordinary leadership since 1971. His qualities of integrity, honesty, enthusiasm and leadership have been the basis for his significant contributions. Flexsteel has been

fortunate to have someone with his skills, including his abilities in effective corporate governance, on our Board for nearly 40 years.

“We will miss the guidance and counsel of Bruce and Tom. Flexsteel is much stronger because of their insights, contributions, and the consistent support that they have provided during their long tenures as Directors,” said Ronald J. Klosterman, Flexsteel’s President and CEO.



L. Bruce Boylen



Thomas E. Holloran

## Three new board members appointed

During fiscal 2011, three new board members were selected. We look forward to their guidance and contributions.

**Thomas M. Levine** is an independent management advisor based in Pittsburgh, Pennsylvania. Mr. Levine has more than thirty-five years of business management and legal experience. He has served on both public and private company boards and is currently serving on the boards of various private companies. Mr. Levine counsels businesses in a number of areas, including strategic planning, acquisitions, and other initiatives to improve shareholder value.

**Robert J. Maricich** is the President and CEO of World Market Center Ventures LLC, Las Vegas, Nevada. Throughout the past thirty years, Mr. Maricich has developed a comprehensive

understanding of the furniture industry. He has furniture expertise in engineering, manufacturing, product development and sourcing, sales and marketing. Mr. Maricich is a passionate leader for the furniture industry and has served and is currently serving on industry association boards.

**Nancy E. Uridil** is the Senior Vice President of Moen Incorporated, North Olmsted, Ohio, responsible for global sourcing, manufacturing, worldwide distribution and logistics, engineering, and quality. Educated as an engineer, she expanded her business knowledge and expertise serving Procter & Gamble, Mary Kay, Inc., and Estee Lauder Companies in various leadership roles. Ms. Uridil offers a unique blend of business talents and has successfully demonstrated her ability to deliver top and bottom line results.

**Flexsteel**  
America's Seating Specialist



**Flexsteel**  
HOSPITALITY



**Flexsteel**  
Excellence in Vehicle Seating



**Dmi**  
DMI OFFICE FURNITURE™



**WYNWOOD**



**Home  
Styles**



## Directors

### L. Bruce Boylen

Chair of the Board of Directors  
Retired Vice President  
Fleetwood Enterprises, Inc.

### Ronald J. Klosterman

President and Chief Executive Officer  
Director

### Jeffrey T. Bertsch

Senior Vice President ~ Corporate Services  
Director

### Mary C. Bottie

Director  
Retired Vice President  
Marketing and Operations  
Motorola, Inc.

### Patrick M. Crahan

Senior Vice President ~ Commercial Seating  
Director

### Lynn J. Davis

Director  
Retired President and Chief Operating Officer  
August Technology

### Robert E. Deignan

Director  
Attorney at Law ~ Baker & McKenzie LLP

### Thomas E. Holloran

Director  
Professor Emeritus, College of Business  
Senior Distinguished Fellow ~ School of Law  
University of St. Thomas ~ St. Paul, Minnesota

### Thomas M. Levine

Director  
Independent Management Advisor

### Robert J. Maricich

Director  
Chief Executive Officer  
International Market Centers

### Eric S. Rangen

Director  
Senior Vice President and  
Chief Accounting Officer  
United Health Group

### James R. Richardson

Senior Vice President ~ Sales and Marketing  
Director

### Nancy E. Uridil

Director  
Senior Vice President ~ Moen Incorporated

## Officers

### Carrie T. Bertsch Bleile

Vice President ~ Merchandising

### Thomas D. Burkart

Senior Vice President  
Vehicle Seating

### Kevin F. Crahan

Vice President  
Commercial Seating Sales

### Donald D. Dreher

Senior Vice President  
President and  
Chief Executive Officer  
DMI Furniture

### Lee D. Fautsch

Vice President ~ Residential Sales

### James E. Gilbertson

Senior Vice President  
Vehicle Seating

### Timothy E. Hall

Senior Vice President ~ Finance  
Chief Financial Officer  
Secretary

### Michael A. Santillo

Vice President  
Vehicle Seating Marketing

## Committees

### Audit and Ethics Committee

Eric S. Rangen, Chair  
Lynn J. Davis  
Thomas E. Holloran  
Thomas M. Levine

### Nominating and Compensation Committee

Mary C. Bottie, Chair  
Robert E. Deignan  
Robert J. Maricich  
Nancy E. Uridil

### Transfer Agent and Registrar

Wells Fargo Shareowner Services  
P.O. Box 64854 • South St. Paul, Minnesota 55164-0854

### General Counsels

Gray, Plant, Mooty, Mooty & Bennett, P.A. • Minneapolis, Minnesota  
O'Connor and Thomas, P.C. • Dubuque, Iowa

### NASDAQ Global Market

NASDAQ Symbol • FLXS

### Annual Meeting

December 12, 2011, 2:00 p.m. • Hilton Minneapolis  
1001 Marquette Avenue • Minneapolis, Minnesota 55403

### Locations

#### Flexsteel Industries, Inc.

Dubuque, Iowa 52001 . . . . . J. E. Gilbertson, General Manager  
(executive offices)  
Dublin, Georgia 31040 . . . . . M.C. Dixon, General Manager  
Lancaster, Pennsylvania 17604 . . . . D. Kobie, Manager  
Riverside, California 92504 . . . . D.J. Bashor, General Manager  
Harrison, Arkansas 72601 . . . . . M.J. Feldman, General Manager  
Starkville, Mississippi 39760 . . . . R. C. Adams, General Manager

#### DMI Furniture, Inc

Louisville, Kentucky 40223 . . . . D.D. Dreher, President & CEO  
Huntingburg, Indiana 47542 . . . R. Rosbottom, VP Distribution

### Permanent Showrooms

High Point, North Carolina • Las Vegas, Nevada

### Internet


www.flexsteel.com • www.flexsteel.com/home-furniture  
www.flexsteelhospitality.com • www.flexsteel.com/vehicle-seating  
www.dmifurniture.com • www.dmiofficefurniture.com  
www.wynwoodfurniture.com • www.homestyles-furniture.com

### AFFIRMATIVE ACTION POLICY

It is the policy of Flexsteel Industries, Inc. that all employees and potential employees shall be judged on the basis of qualifications and ability, without regard to age, sex, race, creed, color or national origin in all personnel actions. No employee or applicant for employment shall receive discriminatory treatment because of physical or mental disability in regard to any position for which the employee or applicant for employment is qualified. Employment opportunities, and job advancement opportunities will be provided for qualified disabled veterans and veterans of the Vietnam era. This policy is consistent with the Company's plan for "Affirmative Action" in implementing the intent and provisions of the various laws relating to employment and non-discrimination.

### ANNUAL REPORT ON FORM 10-K AVAILABLE

A copy of the Company's annual report on Form 10-K, as filed with the Securities and Exchange Commission, can be obtained without charge by writing to: Office of the Secretary • Flexsteel Industries, Inc.  
P. O. Box 877 • Dubuque, Iowa 52004-0877

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