

FLEXSTEEL INDUSTRIES INC
Form 8-K
September 02, 2008

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) August 26, 2008

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**

N/A

(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:

- ☐ 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))

Item 4.02 Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review.

(a) On August 26, 2008, the Chief Executive Officer (CEO), the Chief Financial Officer (CFO) and the Audit Committee of the Board of Directors (Audit Committee) of Flexsteel Industries, Inc. (the Company) determined that the Company s previously filed consolidated financial statements and other financial information and the related reports of its independent registered public accounting firm on Form 10-K for the fiscal years ended June 30, 2007, 2006, 2005 and 2004 and our quarterly reports on Form 10-Q for the previously mentioned fiscal years and the quarters ended March 31, 2008, December 31, 2007 and September 30, 2007 can no longer be relied upon and should be restated due to errors in the consolidated financial statements. The Audit Committee has discussed the matters disclosed herein with respect to non-reliance on, and the correction of, the Company s previously issued consolidated financial statements with the Company s management, other members of the Board of Directors and the Company s independent registered public accounting firm. The Board of Directors concurred with the Audit Committee s non-reliance determination.

Background of the Error Correction

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During the 2008 fiscal year-end closing process the Company identified unsupported reconciling amounts that reduced the accounts payable balances at a material consolidated subsidiary. After completing analysis of these unsupported reconciling amounts, it was determined that they principally related to the historical accounting at the subsidiary for the capitalization of inventory costs and the clearing of accruals from the accounts payable relating to transactions occurring in fiscal years 2004 and 2005. The historical subsidiary inventory standard costing system, established prior to the warehousing of inventory in China, did not appropriately differentiate the costing of inventory balances warehoused in China versus the United States. The warehoused inventories in China inappropriately included freight-in costs for shipments to the United States that had not been incurred. During fiscal year 2006, the Company modified the subsidiary's inventory costing process which rectified the costing error in inventory on a prospective basis but resulted in the reclassification of the historical error in inventory freight costs as a reduction to accounts payable with the erroneous belief that the reduction to accounts payable would offset future freight invoices. As a result of this error, the \$2.287 million reduction within accounts payable remained until identified during the fiscal year 2008 closing process.

Material Weaknesses in Internal Control over Financial Reporting

As a result of the determination to correct the Company's consolidated financial statements and in connection with management's annual assessment of internal controls over financial reporting for the fiscal year ended June 30, 2008, the Company's CEO and CFO undertook an evaluation of the effectiveness of the Company's internal control over financial reporting. As a result of their assessment, the Company's CEO and CFO identified a material weakness in the Company's internal control over financial reporting. The material weakness is related to the design and operating effectiveness of controls over the Company's material consolidated subsidiary's monthly reconciliation of accounts payable records to the general ledger. Specifically, the subsidiary maintained an overly complex accounts payable account structure, which when combined with the processing of a large volume of transactions led to the subsidiary's inability to perform adequate review procedures to timely identify reconciling amounts and the related reversals. This deficiency obscured the existence of unsupported reconciling amounts resulting in the untimely identification of the errors in the restatement discussed below.

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The Company's management is committed to continuing efforts aimed at improving the design adequacy and operational effectiveness of its system of internal control and intends to take all necessary steps to address this material weakness. Subsequent to June 30, 2008, the Company began taking the following measures to address the material weakness identified above and to enhance internal control over monthly, quarterly and year-end financial reporting:

- simplifying the account structure surrounding the accounts payable transactions by reducing the number of general ledger accounts used to record accounts payable,
- improving the accounts payable reconciliation process by revising the automatic postings to accounts payable, and
- enhancing the review and approval of the accounts payable reconciliation process with our subsidiary associates.

The Company believes that these remediation actions, once they are fully implemented and operating for a sufficient period of time, will improve the Company's internal controls over financial reporting and are sufficient to remediate the material weakness described above. While steps have been taken to remediate the material weakness, additional measures may be required. Management will assess the effectiveness of the remediation efforts in connection with management's tests of internal control over financial reporting during fiscal year 2009.

Impact on Previously Issued Financial Statements

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In its June 30, 2008 Form 10-K (2008 Form 10-K), the Company will present the adjustments in its Consolidated Balance Sheet as of June 30, 2007, the Consolidated Statements of Changes in Shareholders' Equity for each of the fiscal years ended June 30, 2007 and June 30, 2006 and the Consolidated Statements of Cash Flows for the fiscal year ended June 30, 2006. There were no changes to the previously issued Consolidated Statements of Income for the fiscal years ended June 30, 2007 and 2006 and the quarters ended March 31, 2008, December 31, 2007 and September 30, 2007. There were no changes to the previously issued fiscal year 2007 and quarters ended March 31, 2008, December 31, 2007 and September 30, 2007 Consolidated Statements of Cash Flows. The 2008 Form 10-K will also reflect the adjustments in the Selected Financial Data presented in Item 6 for the fiscal years ended June 30, 2007, 2006, 2005 and 2004, as applicable, as previously presented in the Company's Form 10-K for the fiscal year ended June 30, 2007. The Company currently anticipates filing the 2008 Form 10-K on or about September 15, 2008.

The effect of the restatement on the Company's previously reported fiscal year end consolidated financial statements are as follows (amounts in thousands, except per share data):

Consolidated Balance Sheets

| | Fiscal Year Ended June 30, 2004 | | |
|--|---------------------------------|------------|-------------|
| | As Reported | Adjustment | As Restated |
| Inventories | \$68,880 | \$(479) |) \$68,401 |
| Deferred income taxes | 3,760 | 180 |) 3,940 |
| Total current assets | 127,489 | (299) |) 127,190 |
| Total assets | 169,519 | (299) |) 169,220 |
| Retained earnings | 92,552 | (299) |) 92,253 |
| Total shareholders' equity | 101,612 | (299) |) 101,313 |
| Total liabilities and shareholders' equity | 169,519 | (299) |) 169,220 |

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Consolidated Statements of Income

| | Fiscal Year Ended June 30, 2004 | | |
|-------------------------------------|---------------------------------|------------|---------------|
| | As Reported | Adjustment | As Restated |
| Cost of goods sold | \$(318,047) |) \$(479) |) \$(318,526) |
| Gross margin | 83,175 | (479) |) 82,696 |
| Operating income | 16,602 | (479) |) 16,123 |
| Income before taxes | 16,740 | (479) |) 16,261 |
| Provision for income taxes | (6,610) |) 180 |) (6,430) |
| Net income | 10,130 | (299) |) 9,831 |
| Earnings per share of common stock: | | | |
| Basic | \$1.57 | \$(0.04) |) \$1.53 |
| Diluted | \$1.55 | \$(0.04) |) \$1.51 |

Consolidated Statements of Changes in Shareholders' Equity

| | Fiscal Year Ended June 30, 2004 | | |
|----------------------------|---------------------------------|------------|-------------|
| | As Reported | Adjustment | As Restated |
| Retained earnings | \$92,552 | \$(299) |) \$92,253 |
| Total shareholders' equity | 101,612 | (299) |) 101,313 |

Consolidated Statements of Cash Flows

Fiscal Year Ended June 30, 2004

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| | As Reported | Adjustment | As Restated |
|--|-------------|------------|-------------|
| OPERATING ACTIVITIES: | | | |
| Net income | \$ 10,130 | \$ (299) | \$ 9,831 |
| Adjustment to reconcile net income to net cash provided by operating activities: | | | |
| Deferred income taxes | 2,555 | (180) | 2,375 |
| Changes in operating assets and liabilities, net of acquisition: | | | |
| Inventories | (9,262) | 479 | (8,783) |
| Net cash provided by operating activities | 7,494 | | 7,494 |

Consolidated Balance Sheets

| | Fiscal Year Ended June 30, 2005 | | |
|--|---------------------------------|-------------|-------------|
| | As Reported | Adjustment | As Restated |
| Inventories | \$ 69,945 | \$ (2,287) | \$ 67,658 |
| Deferred income taxes | 4,430 | 850 | 5,280 |
| Total current assets | 127,798 | (1,437) | 126,361 |
| Total assets | 166,658 | (1,437) | 165,221 |
| Retained earnings | 95,196 | (1,437) | 93,759 |
| Total shareholders' equity | 104,798 | (1,437) | 103,361 |
| Total liabilities and shareholders' equity | 166,658 | (1,437) | 165,221 |

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Consolidated Statements of Income

| | Fiscal Year Ended June 30, 2005 | | |
|-------------------------------------|---------------------------------|-------------|---------------|
| | As Reported | Adjustment | As Restated |
| Cost of goods sold | \$ (333,170) | \$ (1,808) | \$ (334,978) |
| Gross margin | 76,853 | (1,808) | 75,045 |
| Operating income | 9,066 | (1,808) | 7,258 |
| Income before taxes | 8,704 | (1,808) | 6,896 |
| Provision for income taxes | (2,660) | 670 | (1,990) |
| Net income | 6,044 | (1,138) | 4,906 |
| Earnings per share of common stock: | | | |
| Basic | \$ 0.93 | \$ (0.18) | \$ 0.75 |
| Diluted | \$ 0.92 | \$ (0.18) | \$ 0.74 |

Consolidated Statements of Changes in Shareholders' Equity

| | Fiscal Year Ended June 30, 2005 | | |
|----------------------------|---------------------------------|-------------|-------------|
| | As Reported | Adjustment | As Restated |
| Retained earnings | \$ 95,196 | \$ (1,437) | \$ 93,759 |
| Total shareholders' equity | 104,798 | (1,437) | 103,361 |

Consolidated Statements of Cash Flows

| | Fiscal Year Ended June 30, 2005 | | |
|--|---------------------------------|-------------|-------------|
| | As Reported | Adjustment | As Restated |
| OPERATING ACTIVITIES: | | | |
| Net income | \$ 6,044 | \$ (1,138) | \$ 4,906 |
| Adjustment to reconcile net income to net cash provided by operating activities: | | | |
| Deferred income taxes | (1,150) | (670) | (1,820) |
| Changes in operating assets and liabilities, net of acquisition: | | | |
| Inventories | (1,065) | 1,808 | 743 |
| Net cash provided by operating activities | 12,724 | | 12,724 |

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Consolidated Balance Sheets

| | Fiscal Year Ended June 30, 2006 | | As Restated |
|--|--|-------------------|--------------------|
| | As Reported | Adjustment | |
| Deferred income taxes | \$4,620 | \$850 | \$5,470 |
| Total current assets | 145,387 | 850 | 146,237 |
| Total assets | 183,326 | 850 | 184,176 |
| Accounts payable | 15,768 | 2,287 | 18,055 |
| Total current liabilities | 48,400 | 2,287 | 50,687 |
| Total liabilities | 75,823 | 2,287 | 78,110 |
| Retained earnings | 96,502 | (1,437) | 95,065 |
| Total shareholders' equity | 107,502 | (1,437) | 106,065 |
| Total liabilities and shareholders' equity | 183,326 | 850 | 184,176 |

Consolidated Statements of Income Fiscal Year Ended June 30, 2006 - No Change

Consolidated Statements of Changes in Shareholders' Equity

| | Fiscal Year Ended June 30, 2006 | | As Restated |
|----------------------------|--|-------------------|--------------------|
| | As Reported | Adjustment | |
| Retained earnings | \$96,502 | \$(1,437) | \$95,065 |
| Total shareholders' equity | 107,502 | (1,437) | 106,065 |

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Consolidated Statements of Cash Flows

| Consolidated Statements of Cash Flows | Fiscal Year Ended June 30, 2006 | | |
|--|---------------------------------|------------|--------------|
| | As Reported | Adjustment | As Restated |
| OPERATING ACTIVITIES: | | | |
| Changes in operating assets and liabilities, net of acquisition: | | | |
| Inventories | \$ (14,825) | \$ 2,287 | \$ (12,538) |
| Accounts payable | (492) | (2,287) | (2,779) |
| Net cash used in operating activities | (7,255) | | (7,255) |

Consolidated Balance Sheets

| | Fiscal Year Ended June 30, 2007 | | As Restated |
|--|--|-------------------|--------------------|
| | As Reported | Adjustment | |
| Deferred income taxes | \$3,850 | \$850 | \$4,700 |
| Total current assets | 142,516 | 850 | 143,366 |
| Total assets | 184,164 | 850 | 185,014 |
| Accounts payable | 13,607 | 2,287 | 15,894 |
| Total current liabilities | 43,177 | 2,287 | 45,464 |
| Total liabilities | 70,049 | 2,287 | 72,336 |
| Retained earnings | 102,421 | (1,437) | 100,984 |
| Total shareholders' equity | 114,115 | (1,437) | 112,678 |
| Total liabilities and shareholders' equity | 184,164 | 850 | 185,014 |

Consolidated Statements of Income Fiscal Year Ended June 30, 2007 - No Change

Consolidated Statements of Changes in Shareholders' Equity

| | Fiscal Year Ended June 30, 2007 | | As Restated |
|--|--|-------------------|--------------------|
| | As Reported | Adjustment | |

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| | | | | |
|----------------------------|------------|-----------|---|------------|
| Retained earnings | \$ 102,421 | \$ (1,437 |) | \$ 100,984 |
| Total shareholders' equity | 114,115 | (1,437 |) | 112,678 |

Consolidated Statements of Cash Flows Fiscal Year Ended June 30, 2007 No Change

The effect of the restatement on certain of the Company's previously reported quarterly financial statements on Form 10-Q are as follows (amounts in thousands):

| Consolidated Balance Sheets | Quarter Ended September 30, 2007 | | As Restated |
|--|----------------------------------|------------|-------------|
| | As Reported | Adjustment | |
| Deferred income taxes | \$ 3,720 | \$ 850 | \$ 4,570 |
| Total current assets | 142,491 | 850 | 143,341 |
| Total assets | 183,291 | 850 | 184,141 |
| Accounts payable | 11,904 | 2,287 | 14,191 |
| Total current liabilities | 41,617 | 2,287 | 43,904 |
| Total liabilities | 68,956 | 2,287 | 71,243 |
| Retained earnings | 102,640 | (1,437 |) 101,203 |
| Total shareholders' equity | 114,335 | (1,437 |) 112,898 |
| Total liabilities and shareholders' equity | 183,291 | 850 | 184,141 |

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Consolidated Statements of Income Quarter Ended September 30, 2007 No Change

Consolidated Statements of Cash Flows Quarter Ended September 30, 2007 No Change

| Consolidated Balance Sheets | Quarter Ended December 31, 2007 | | As Restated |
|--|---------------------------------|------------|-------------|
| | As Reported | Adjustment | |
| Deferred income taxes | \$ 3,670 | \$ 850 | \$ 4,520 |
| Total current assets | 144,470 | 850 | 145,320 |
| Total assets | 184,793 | 850 | 185,643 |
| Accounts payable | 12,752 | 2,287 | 15,039 |
| Total current liabilities | 41,740 | 2,287 | 44,027 |
| Total liabilities | 69,290 | 2,287 | 71,577 |
| Retained earnings | 103,653 | (1,437 |) 102,216 |
| Total shareholders' equity | 115,503 | (1,437 |) 114,066 |
| Total liabilities and shareholders' equity | 184,793 | 850 | 185,643 |

Consolidated Statements of Income Quarter Ended December 31, 2007 No Change

Consolidated Statements of Cash Flows Quarter Ended December 31, 2007 No Change

| Consolidated Balance Sheets | Quarter Ended March 31, 2008 | | As Restated |
|--|-------------------------------------|-------------------|--------------------|
| | As Reported | Adjustment | |
| Deferred income taxes | \$3,420 | \$ 850 | \$4,270 |
| Total current assets | 135,358 | 850 | 136,208 |
| Total assets | 174,767 | 850 | 175,617 |
| | | | |
| Accounts payable | 9,672 | 2,287 | 11,959 |
| Total current liabilities | 32,010 | 2,287 | 34,297 |
| Total liabilities | 59,670 | 2,287 | 61,957 |
| Retained earnings | 103,648 | (1,437) | 102,211 |
| Total shareholders' equity | 115,097 | (1,437) | 113,660 |
| Total liabilities and shareholders' equity | 174,767 | 850 | 175,617 |

Consolidated Statements of Income Quarter Ended March 31, 2008 No Change

Consolidated Statements of Cash Flows Quarter Ended March 31, 2008 No Change

SIGNATURES

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

FLEXSTEEL INDUSTRIES, INC.
(Registrant)

Date: September 2, 2008

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