Risk Factors Comparison 2023-08-25 to 2022-08-26 Form: 10-K

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The Company is subject to various local, state, and federal laws, regulations and agencies that affect businesses generally, see " Risk Factors " in Item 1A of this Annual Report on Form 10- K. Our compliance with federal, state and local laws and regulations did not have a material effect upon our capital expenditures, earnings or competitive position during the fiscal year ended June 30, ~~2022~~ **2023** . Environmental Matters All of Flexsteel' s stakeholders have a responsibility to protect our employees and our environment. The officers of Flexsteel and its subsidiaries will use our role as business and community leaders to set the tone at the top to guide our management teams in their efforts to improve the workplace and the environment we directly impact. Because we are committed to sustainable business practices, to our people, and to our communities, we will continue to grow and expand the scope of our dedications to the stewardship of our valued resources. The Company is subject to environmental laws and regulations with respect to product content and industrial waste. Further discussion is included in " Risk Factors " in Item 1A and " Legal Proceedings " in Item 3 of this Annual Report on Form 10- K. Trademarks and Patents The Company owns the United States improvement patents to its Flexsteel guaranteed- for- life Blue Steel Spring – the all- riveted, high- carbon, steel- banded seating platform that gives upholstered and leather furniture the strength and comfort to last a lifetime, as well as patents on convertible beds. The Company ~~has~~ **owns other** patents and owns certain trademarks in connection with its furniture. It is not common in the furniture industry to obtain a patent for a furniture design. If a particular design of a furniture manufacturer is well accepted in the marketplace, it is common for other manufacturers to imitate the same design without recourse by the furniture manufacturer who initially introduced the design. Furniture products are designed by the Company' s own design staff and through the services of third- party designers. New models and designs of furniture, as well as new fabrics, are introduced continuously. Employees The Company had approximately 1, ~~800~~ **700** employees on June 30, ~~2022~~ **2023** , including ~~7~~ **6** employees who are covered by collective bargaining agreements. Management believes it has good relations with employees. Available Information Copies of our Annual Report on Form 10- K, Quarterly Reports on Form 10- Q, Current Reports on Form 8- K and amendments to those reports filed or furnished pursuant to Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934, as amended, are available free of charge on our website (www. flexsteel. com) as soon as reasonably practicable after we electronically file the material with or furnish it to the U. S. Securities and Exchange Commission (SEC). Additionally, the SEC maintains an internet site (www. sec. gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Information on our website or linked to our website is not incorporated by reference into this Annual Report. Item 1A. Risk Factors The Company is subject to a variety of risks. You should carefully consider the risk factors detailed below in conjunction with the other information contained in this Annual Report on Form 10- K. Should any of these risks materialize the Company' s business, financial condition, and future prospects could be negatively impacted. There may be additional factors that are presently unknown to the Company or that the Company currently believes to be immaterial that could affect its business. Risks related to our operations: Business information systems could be impacted by disruptions and security breaches. The Company employs information technology systems to support its global business. Security breaches and other disruptions to the Company' s information technology infrastructure could interfere with operations, compromise information belonging to the Company and its customers and suppliers and expose the Company to liability which could adversely impact the Company' s business and reputation. In the ordinary course of business, the Company relies on information technology networks and systems to process, transmit and store electronic information, and to manage or support a variety of business processes and activities. Additionally, the Company collects and stores certain data, including proprietary business information, and may have access to confidential or personal information in certain areas of its businesses that is subject to privacy and security laws, regulations, and customer- imposed controls. While security breaches and other disruptions to the Company' s information technology networks and infrastructure could happen, none have occurred to date that has had a material impact on the Company. Any such events could result in legal claims or proceedings, liability or penalties under privacy laws, disruption in operations, and damage to the Company' s reputation, which could adversely affect the Company' s business. In addition, in response to ~~the COVID- 19 pandemic and~~ shifts in employee workplace preferences, we have allowed certain of our employees the option of a hybrid work schedule where they may choose to work partially from home. Although we continue to implement strong physical and cybersecurity measures to ensure that our business operations remain functional and to ensure uninterrupted service to our customers, our systems and our operations remain vulnerable to cyberattacks and other disruptions because a material portion of our employees work remotely either full or part- time, and we cannot be certain that our mitigation efforts will be effective. The implementation of a new business information system could disrupt the business. The Company continues to migrate business and financial processes from **legacy** ERP systems to SAP. The Company takes great care in the planning and execution of these migrations, however, implementation issues related to the transition could arise and may result in the following: ? Disruption of the Company' s domestic and international supply chain; ? Inability to fill customer orders accurately and on a timely basis; ? Negative impact on financial results; ? Inability to fulfill federal, state and local tax filing requirements in a timely and accurate matter; and ? Increased demands of management and associates to the detriment of other corporate initiatives. The Company' s participation in **a** multi- employer pension ~~plans~~ - **plan** may have exposures under those plans that could extend beyond what its obligations would be with respect to its employees. The Company participates in, and makes periodic contributions to, one multi- employer pension plan that covers union employees. Multi- employer pension plans are managed by trustee boards comprised of participating employer and labor union representatives, and the employers participating in a multiemployer pension plan are jointly responsible for maintaining the plan' s funding requirements. Based on the most recent information available to the Company, the present value of actuarially accrued liabilities of the multi- employer pension plan substantially exceeds the value of the assets held in trust to pay benefits. As a result of the Company' s participation, it could experience greater volatility in the overall pension funding obligations. The Company' s obligations may be impacted by the funded status of the plans, the plans' investment performance, changes in the participant demographics, financial stability of contributing employers and changes in actuarial assumptions. See Note 12 Benefit and Retirement Plans of Notes to Consolidated Financial Statements included in this Annual Report on Form 10- K for more information. Future results may be affected by various legal proceedings and compliance risk, including those involving product liability, environmental, or other matters. The Company faces the risk of exposure to product liability claims in the event the use of any of its products results in personal injury or property damage. In the event any of the Company' s products prove to be defective, it may be required to recall or redesign such products. The Company is also subject to various laws and regulations relating to environmental protection and the discharge of materials into the environment. The Company could incur substantial costs, including legal expenses, as a result of the noncompliance with, or liability for cleanup or other costs or damages under, environmental laws. Given the inherent uncertainty of litigation, these various legal proceedings and compliance matters could have a material impact on the business, operating results, and financial condition. See Note 13 Commitments and Contingencies of Notes to Consolidated Financial Statements included in this Annual Report on Form 10- K for more information. **We may experience impairment of our long- lived assets, which would decrease our earnings and net worth. At June 30, 2023, we had $ 38. 7 million in property, plant and equipment and $ 68. 3 million in right of use assets associated with leased facilities. These definite- lived assets are tested for impairment whenever events or circumstances indicate that the carrying amount of the asset may not be recoverable. The outcome of impairment testing could result in the write- down of all or a portion of the value of these assets. A write- down of our assets would, in turn, reduce our earnings and net worth. In particular, if capacity requirements do not necessitate the utilization of our leased Mexicali, Mexico facility and we are unsuccessful at subleasing the facility in the future the carrying amount of the right of use asset associated with that lease may not be recoverable. A write- down of all or a portion of the value of the Mexicali right of use asset could have a material impact on our earnings in the period of impairment. At June 30, 2023 the Company does not believe any impairment indicators exist due to current and expected sublease tenants and plans for future operations but impairment assessment involves the use of considerable judgement and any change in future market or economic conditions could cause actual results to differ.** The Company' s success depends on its ability to recruit and retain key employees and highly skilled workers in a competitive labor market. If the Company is not successful in recruiting and retaining key employees and highly skilled workers or experiences the unexpected loss of those employees, the operations may be negatively impacted. Additionally, we are and will continue to be dependent upon our senior management team and other key personnel. Losing the services of one or more key members of our management team or other key personnel could adversely affect our operations. ~~In addition, the ongoing~~ **Ongoing** ~~impact of COVID- 19,~~ or **future** ~~risk of similar~~ communicable ~~disease~~ **diseases** ~~in the future, increases~~ - **increase** the risk that certain senior executive officers or a member of the board of directors could become ill, causing them to be incapacitated or otherwise unable to perform their duties for an extended absence. ~~Furthermore, because of the nature of the disease, multiple people working in close proximity could also become ill simultaneously which could result in the same department having extended absences or a temporary shutdown of one or more of our manufacturing facilities or distribution centers.~~ This could negatively impact the efficiency and effectiveness of processes and internal controls throughout the Company and our ability to service customers ~~. Terms of collective bargaining agreements and labor disruptions could adversely impact results of operations. Terms of collective bargaining agreements that prevent the Company from competing effectively could adversely affect its financial condition, results of operations and cash flows. The Company is committed to working with those groups to avert or resolve conflicts as they arise. However, there can be no assurance that these efforts will be successful~~. We may not be able to collect amounts owed to us. We grant ~~30- day~~ payment terms **between 10 and 60 days** to ~~most~~ customers ~~. As a result of the COVID- 19 pandemic~~ , **often without requiring collateral. Due to ongoing global** supply chain issues and inflationary cost pressures, some customers have requested extended payment terms or informed us they will not pay amounts within agreed upon terms. Some of our customers have experienced, and may in the future experience, cash flow and credit- related issues. ~~If the negative economic effects of COVID- 19 were to persist or a similar pandemic or another major, unexpected event with negative economic effects were to occur, we may not be able to collect amounts owed to us or such payment may only occur after significant delay.~~ While we perform credit evaluations of our customers, those evaluations may not prevent uncollectible trade accounts receivable. Credit evaluations involve significant management diligence and judgment, especially in the current environment. Should more customers experience liquidity issues than we anticipate, if payment is not received on a timely basis, or if a customer declares bankruptcy or closes stores, we may have difficulty collecting amounts owed to us by these customers, which could adversely affect our sales, earnings, financial condition, and liquidity. Risks related to our industry: The **impact of** COVID- 19 **or similar** ~~pandemic~~ **pandemics** could ~~continue to~~ have a materially adverse effect on our ability to operate, our ability to keep employees safe from the pandemic, our results of operations, and financial condition. **During** ~~On March 11, 2020,~~ the **initial height of** ~~World Health Organization declared~~ the ~~current coronavirus (" COVID- 19 ") outbreak to be a global pandemic, and the virus continues to spread in areas where we operate and sell our products. The~~ COVID- 19 pandemic ~~and similar issues in~~ **, purchases of home furnishings were heavily impacted as** ~~the~~ **they are largely deferable** ~~future could have a material adverse effect on our ability to operate, our ability to keep employees safe from the pandemic, our results of operations,~~ and ~~financial condition~~ **heavily influenced by consumer sentiment** . Public health organizations ~~have~~ recommended, and many governments ~~have~~ implemented, measures from time- to- time ~~during the pandemic~~ to slow and limit the transmission of the virus, including certain business shutdowns and shelter in place and social distancing requirements. Such preventive measures, or others we may voluntarily put in place, may have a material adverse effect on our business for an indefinite period of time, such as the potential shut down of certain locations, decreased employee availability, potential border closures, and disruptions to the businesses of our selling channel partners, and others. Our suppliers and customers also face these and other challenges, which have and could continue to lead to a disruption in our supply chain, raw material inflation or the inability to get the raw materials necessary to produce our products, increased shipping, and transportation costs, as well as decreased consumer spending and decreased demand for our products. **A resurgence** ~~Although these disruptions may continue to occur, the long- term economic impact and near- term financial impacts~~ of the COVID- 19 pandemic ~~, including but not limited to, potential near- term~~ or ~~long- term risk of asset impairment, restructuring, and~~ other **public health emergency in** ~~charges, cannot be reliably quantified or estimated at this time due to~~ the ~~uncertainty of~~ future ~~developments~~ **could have a material adverse effect on our ability to operate, our ability to keep employees safe from the pandemic, our results of operations, and financial condition** . Continuing inflation **and changes in foreign currency** may impact our profitability. Cost inflation including significant increases in ocean container rates, raw materials prices, labor rates, and domestic transportation costs have and could continue to impact profitability. Continued imbalances between supply and demand for these resources may continue to exert upward pressure on costs **. The Company purchases raw materials, component parts, and certain finished goods from foreign external suppliers. Prices for these purchases are primarily negotiated in U. S. dollars on a purchase order basis. A negative shift in the U. S. dollar relative to the local currency of our supplier could result in price increases and negatively impact our cost structure. In addition, the majority of our manufactured products are produced in Mexico. The wages of our employees and certain other employee benefit and indirect costs are made in Pesos. The Company does not employ any foreign currency hedges against this exposure. A negative shift in the value of the U. S. dollar against the Peso could increase the cost of manufacturing** . Our ability to recover these cost increases through price increases may continue to lag the cost increases, resulting in downward pressure on margins. In addition, price increases to offset rising costs could negatively impact demand for our products. The Company' s products are considered deferrable purchases for consumers during economic downturns. Prolonged negative economic conditions could impact the business. Economic downturns and prolonged negative economic conditions could affect consumer spending habits by decreasing the overall demand for home furnishing products. These events could impact retailers resulting in an impact on the Company' s business. A recovery in the Company' s sales could lag significantly behind a general economic recovery due to the deferrable nature and relatively significant cost of purchasing home furnishing products. Future success depends on the Company' s ability to manage its global supply chain. The Company acquires raw materials, component parts **,** and certain finished products from external suppliers, both U. S. and foreign. Many of these suppliers are dependent upon other suppliers in countries other than where they are located. This global interdependence within the Company' s supply chain is subject to delays in delivery, availability, quality, and pricing. Changes in international trade policies including tariffs **, access to ports and border crossings, or railways** could disrupt the supply chain, increase cost and reduce competitiveness. The delivery of goods from these suppliers has been and may continue to be delayed by customs, labor issues, **availability of third- party transportation and equipment,** geo- political pressures, ~~disruptions associated with the COVID- 19 pandemic,~~ changes in political, economic, and social conditions, weather, laws **,** and regulations. Unfavorable fluctuations in **price, international trade policies, quality, delivery, and availability of these products could continue to adversely affect the Company' s ability to meet demands of customers and cause negative impacts to the Company' s cost structure, profitability, and its cash flow. Enacted tariffs and potential future increases in tariffs on manufactured goods imported from China or other countries could adversely affect our business. Inability to reduce acquisition costs or pass- through price increases may have an adverse impact on sales volume, earnings, and liquidity. Similarly, increases in pricing may have an adverse impact on the competitiveness of the Company' s products relative to other furniture manufacturers with less exposure to the tariff and could also lead to adverse impacts on volume, earnings, and liquidity. Additionally, a disruption in supply from foreign countries could adversely affect our ability to timely fill customer orders for those products and decrease our sales, earnings, and liquidity. The main foreign countries we source from are Vietnam, China, Thailand, and Mexico. It is unclear how our supply chain could be further impacted by COVID- 19, including the spread of new variants, and there are many unknowns including how long we could be impacted, the severity of the impacts, and the probability of a recurrence of COVID- 19 or similar regional or global pandemics. If we were unsuccessful in obtaining those products from other sources or at comparable cost, a disruption in our supply chain could adversely affect our sales, earnings, financial condition, and liquidity. Finally, the Company relies on third parties to deliver customer orders. The capacity of these third parties or cost of this service could be impacted by labor disputes, cost inflation (particularly fuel), and availability of drivers which could increase cost and have negative impacts on our earnings. Competition from U. S. and foreign finished product manufacturers may adversely affect the business, operating results or financial condition. The furniture industry is very competitive and fragmented. The Company competes with U. S. and foreign manufacturers and distributors. As a result, the Company may not be able to maintain or raise the prices of its products in response to competitive pressures or increasing costs. Also, due to the large number of competitors and their wide range of product offerings, the Company may not be able to significantly differentiate its products (through styling, finish, and other construction techniques) from those of its competitors. Additionally, most of our sales are to distribution channels that rely on physical stores to merchandise and sell our products and an involuntary shut down of those stores due to COVID- 19 or similar pandemic or a significant shift in consumer preference toward purchasing products online could have a materially adverse impact on our sales and operating margin. These and other competitive pressures could cause us to lose market share, revenues, and customers, increase expenditure or reduce prices, any of which could have a material adverse effect on our results of operations or liquidity. Future costs of complying with various laws and regulations may adversely impact future operating results. The Company' s business is subject to various laws and regulations which could have a significant impact on operations and the cost to comply with such laws**

and regulations could adversely impact the Company' s financial position, results of operations and cash flows. In addition, inadvertently failing to comply with such laws and regulations could produce negative consequences which could adversely impact the Company' s operations. Failure to anticipate or respond to changes in consumer or designer tastes and fashions in a timely manner could adversely affect the Company' s business and decrease sales and earnings. Furniture is a styled product and is subject to rapidly changing consumer and end- user trends and tastes and is highly fashion oriented. If the Company is not able to acquire sufficient fabric variety or if the Company is unable to predict or respond to changes in fashion trends, it may lose sales and have to sell excess inventory at reduced prices. Use of social media to disseminate negative commentary may adversely impact the Company' s reputation and business. There has been a substantial increase in the use of social media platforms, including blogs, social media websites, and other forms of internet- based communications, which allow individuals to access a broad audience of consumers and other interested persions. Negative commentary regarding the Company or its products may be posted on social media platforms at any time and may have an adverse impact on its reputation, business, or relationships with third parties, including suppliers, customers, investors, and lendors. Consumers