COVID-19
Justice

Iowa-based Flexsteel agrees to $1.3 million settlement with laid-off workers

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Flexsteel of Dubuque has agreed to pay $1.2 million to settle a lawsuit initiated by laid-off employees. (Photo via Google Maps)

Flexsteel, the Iowa-based company has agreed to pay $1,275,000 to settle a lawsuit that accused the company of using the pandemic to collect millions in federal aid while newly installed executives enriched themselves and denied severance pay to hundreds of laid-off workers.

A federal judge has given the settlement preliminary approval, and notices have been sent to the attorneys general in states where the company operates. Postcard notices to the hundreds of former Flexsteel workers who can claim a share of the settlement proceeds will be mailed within a week.

Those notices inform the former Flexsteel employees of the settlement and states that each class member who does not opt out of the agreement will receive a share of the settlement proceeds. The individual shares will be calculated based on years of Flexsteel employment and the individual workers' pay level.

The $1,275,000 settlement includes $425,000 for the plaintiffs' attorneys, Dorothy O'Brien and Kelsey Marquard of the Davenport law firm O'Brien & Marquard.

Flexsteel has denied the allegations in the lawsuit, and the settlement agreement itself specifies that it does not constitute an admission of any wrongdoing or liability. Company officials could not be reached for comment Monday.

As is normally the case with class-action lawsuit settlements, a website has been established to provide class members and others with information and documents related to the settlement.

The lawsuit was filed in March 2021, with plaintiffs claiming the Dubuque-headquartered company violated the Iowa Wage Payment Collection Act, as well as the federal Worker Adjustment and Retraining Notification Act of 1988 and Employee Retirement Income Security Act of 1974.

The plaintiffs allege that when the pandemic hit in early 2020, Flexsteel was deep into a previously announced corporate restructuring that would leave plants in California, Arkansas, Mississippi and Iowa shuttered.

Up until that time, the company had allegedly been providing workers with 60 days' notice of their termination in accordance with Worker Adjustment and Retraining Notification Act of 1988, and with severance pay in accordance with the Employee Retirement Income Security Act of 1974.

In March 2020, the World Health Organization declared COVID-19 a global public health emergency. Two weeks later, Flexsteel notified employees in Dubuque that it intended to permanently lay off 208 employees there, but it allegedly refused to pay severance or give 60 days' notice of closure as required by the WARN Act. It also notified workers at its Starkville, Mississippi, plant that it was permanently closing that facility, effective immediately, resulting in the termination of all 170 employees there.

According to the lawsuit, company officials said they provided no notice or severance pay for the Dubuque and Starkville workers because the closures were "not reasonably foreseeable until recently when the full impact of COVID-19 became clear."

A few weeks after the announcement, Congress approved the CARES Act, which would provide Flexsteel with $12.7 million in taxpayer-funded assistance.

The lawsuit alleges that just five weeks after COVID-19 was declared a public health emergency, Flexsteel CEO Jerald K. Dittmer purchased 2,787 shares of company stock. A few weeks later, he purchased an additional 1,000 shares, and Flexsteel offered 78,884 stock options to Chief Financial Officer Dereck P. Schmidt at $9.97 per share.

Over the next few months, as Flexsteel plants shut down, Schmidt purchased 49,000 shares of company stock. As of Feb. 9, 2021, those shares were valued at more than $35 — almost three times the price they commanded in June 2020.

The lawsuit alleges Dittmer, Schmitt and others defunded the company's severance-pay plan, closed the plants and put "their own self-interest ahead" of the workers' interests. The company, the plaintiffs said, "used COVID as an excuse to accelerate the restructuring at a reduced cost, at the expense of terminated employees," even as top executives diverted money allocated for the employee-termination benefit fund.

"Flexsteel and the individual defendants used the economic conditions, federal aid and their privileges as executives to enrich themselves, while terminating long-term employees without notice or severance," the lawsuit claims.

Flexsteel has since sold its facilities in Dubuque, Pennsylvania, Arkansas, Mississippi and California, with revenue from those sales allegedly totaling $50 million.

The plaintiffs allege that after the Iowa workers were laid off without notice or severance pay, Dittmer reported that the company's profitability had been restored with double-digit growth, strong consumer demand and historic high levels of orders and inventories.

The original plaintiffs in the lawsuit, prior to it being named a class-action case, include former Flexsteel workers Tony Jelinek, Rodney Carroll and Todd Van Der Jagt of Iowa.