

SECURITIES AND EXCHANGE COMMISSION  
 WASHINGTON, D.C. 20549

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
 SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]  
 For the fiscal year ended June 30, 1997

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
 SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]  
 For the transition period from to  
 Commission file number 0-5151

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

MINNESOTA (State or other jurisdiction of incorporation or organization)	42-0442319 (I.R.S. Employer Identification No.)
P.O. BOX 877, DUBUQUE, IOWA (Address of principal executive offices)	52004-0877 (Zip Code)

Registrant's telephone number, including area code: (319) 556-7730

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
	NASDAQ

Securities registered pursuant to Section 12(g) of the Act:  
 COMMON STOCK, \$1.00 PAR VALUE  
 (Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

State the aggregate market value of the voting stock held by non-affiliates of the registrant as of August 8, 1997 which is within 60 days prior to the date of filing:

Common Stock, Par Value \$1.00 Per Share: \$58,779,042

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of August 8, 1997:

CLASS	SHARES OUTSTANDING
Common Stock, \$1.00 Par Value	6,958,363 Shares

DOCUMENTS INCORPORATED BY REFERENCE

PORTIONS OF REGISTRANT'S ANNUAL REPORT TO SHAREHOLDERS FOR THE YEAR ENDING JUNE 30, 1997 IN PARTS I, II AND IV.

IN PART III, PORTIONS OF THE REGISTRANT'S 1997 PROXY STATEMENT, TO BE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION WITHIN 120 DAYS OF THE REGISTRANT'S FISCAL YEAR END.

PART I

ITEM 1. BUSINESS

(a) GENERAL DEVELOPMENT OF BUSINESS

The registrant was incorporated in 1929 and has been in the furniture seating business ever since. For more detailed information see the registrant's 1997 Annual Report to Shareholders which is incorporated herein by reference.

(b) FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

The registrant's operations consist of one industry segment-- upholstered seating. For more detailed financial information see the registrant's 1997 Annual Report to Shareholders which is incorporated herein by reference.

The registrant's upholstered seating business has three primary areas of application -- home seating, vehicle seating and commercial seating. Set forth below, in tabular form, is information for the past three fiscal years showing the registrant's sales of upholstered seating attributable to each of the areas of application described above:

SALES FOR UPHOLSTERED SEATING APPLICATIONS

	1997	1996	1995
	----- AMOUNT OF SALES -----	----- AMOUNT OF SALES -----	----- AMOUNT OF SALES -----
Home Seating.....	\$133,600,000	\$128,600,000	\$131,500,000
Vehicle Seating.....	64,600,000	58,200,000	60,700,000
Commercial Seating.....	21,200,000	18,200,000	16,200,000
	-----	-----	-----
Upholstered Seating Total.	\$219,400,000	\$205,000,000	\$208,400,000
	=====	=====	=====

(c) NARRATIVE DESCRIPTION OF BUSINESS

(1) (i), (ii), (vii) The registrant is engaged in one segment of business, namely, the manufacture and sale of a broad line of quality upholstered furniture for the retail furniture market, contract furniture market and recreational vehicle furniture market. The registrant's classes of products include a variety of wood and upholstered furniture including upholstered reclining and rocker- reclining chairs, swivel rockers, chairs, sofas, sofa beds, loveseats and convertible bedding units, some or all of which are for the home, office, recreational vehicles, vans and mobile homes. Featured as a basic component in most of the upholstered furniture is a unique drop-in-seat spring. The registrant primarily distributes its products throughout most of the United States through the registrant's sales force to approximately 3,000 furniture dealers, department stores and R.V. manufacturers. The registrant's products are also sold to several national chains, some of which sell on a private label basis.

(iii) Sources and availability of raw materials essential to the business:

The registrant's furniture products utilize oak, gum and other species of hardwood lumber obtained from Arkansas, Mississippi, Missouri and elsewhere. In addition to lumber and plywood, principal raw materials utilized in the manufacturing process include bar and wire stock, high carbon spring steel, fabrics, leather and polyurethane. While the registrant purchases these materials from outside suppliers, it is not dependent upon any single source of supply. The raw materials are all readily available.

(iv) Material patents and licenses:

The registrant owns the American and Canadian improvement patents to its Flexsteel seat spring, as well as, patents on convertible beds and various other recreational vehicle seating products. In addition, it holds licenses to manufacture certain rocker-recliners. The registrant does not consider its patents and licenses material to its business.

(v) The registrant's business is not considered seasonal.

(viii) The approximate dollar amounts of backlog of orders believed to be firm as of the end of the last fiscal year and the preceding fiscal year are as follows:

JUNE 30, 1997	JUNE 30, 1996
-----	-----
\$22,700,000*	\$22,600,000

\* All of this amount is expected to be filled and billed in fiscal year ending June 30, 1998.

(x) Competitive conditions:

The furniture industry is highly competitive. There are numerous furniture manufacturers in the United States. Although the registrant is one of the largest manufacturers of upholstered furniture in the United States, according to the registrant's best information it manufactures and sells less than 4% of the upholstered furniture sold in the United States. The registrant's principal method of meeting competition is by emphasizing its product performance and to use its sales force.

(xi) Expenditures on Research Activities:

Most items in the upholstered seating line are designed by the registrant's own design staff. New models and designs of furniture, as well as new fabrics, are introduced continuously. The registrant estimates that approximately 40% of its upholstered seating line is redesigned in whole or in part each year. In the last three fiscal years, these redesign activities involved the following expenditures:

FISCAL YEAR ENDING	EXPENDITURES
-----	-----
June 30, 1995	\$1,490,000
June 30, 1996	\$1,485,000
June 30, 1997	\$1,540,000

(xiii) Approximately 2,400 people are employed by the registrant.

(d) FINANCIAL INFORMATION ABOUT DOMESTIC OPERATIONS

The registrant has no foreign operations and makes minimal export sales. Financial information about domestic operations is set forth in the registrant's 1997 Annual Report to Shareholders which is incorporated herein by reference.

ITEM 2. PROPERTIES

(a) THE REGISTRANT OWNS THE FOLLOWING MANUFACTURING PLANTS:

LOCATION	APPROXIMATE SIZE (SQUARE FEET)	PRINCIPAL OPERATIONS
Dubuque, Iowa	845,000	Upholstered Furniture-- Recreational Vehicle -- Metal Working
Lancaster, Pennsylvania	216,000	Upholstered Furniture-- Recreational Vehicle
Riverside, California	206,000	Upholstered Furniture-- Recreational Vehicle
Harrison, Arkansas	123,000	Woodworking Plant
New Paris, Indiana	168,000	Upholstered Furniture-- Recreational Vehicle
Dublin, Georgia	153,000	Upholstered Motion Furniture
Starkville, Mississippi	349,000	Upholstered Furniture-- Woodworking Plant
Elkhart, Indiana	99,500	Upholstered Furniture-- Vehicle

The registrant's operating plants are well suited for their manufacturing purposes and have been updated and expanded from time to time as conditions warrant. There is adequate production capacity to meet present market demands.

The registrant leases showrooms for displaying its products in the furniture marts in High Point, North Carolina and San Francisco, California.

The registrant leases one production facility for recreational vehicle products in Watkinsville, Georgia of approximately 60,000 sq. feet and one warehouse in Vancouver, Washington of approximately 15,750 sq. feet for storing its products prior to distribution.

(b) OIL AND GAS OPERATIONS: NONE.

ITEM 3. LEGAL PROCEEDINGS

The Company has no material legal proceedings pending other than ordinary routine litigation incidental to the business.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter no matter was submitted to a vote of security holders.

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of the registrant, their ages, positions (in each case as of June 30, 1997), and the month and year they were first elected or appointed an officer of the registrant, are as follows:

NAME (AGE)	POSITION (DATE FIRST BECAME OFFICER)
K. B. Lauritsen (54)	President /Chief Executive Officer (November 1979)
E. J. Monaghan (58)	Executive Vice President/Chief Operating Officer (November 1979)
R. J. Klosterman (49)	Vice President Finance/Chief Financial Officer & Secretary (June 1989)
J. R. Richardson (53)	Senior Vice President of Marketing (November 1979)
T. D. Burkart (55)	Senior Vice President of Vehicle Seating (February 1984)
P. M. Crahan (49)	Vice President (June 1989)
J. T. Bertsch (42)	Vice President (June 1989)

Each named executive officer has held the same office or an executive or management position with the registrant for at least five years.

CAUTIONARY STATEMENT RELEVANT TO FORWARD-LOOKING INFORMATION FOR THE PURPOSE OF "SAFE HARBOR" PROVISIONS THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

The Company and its representatives may from time to time make written or oral forward-looking statements with respect to long-term goals of the Company, including statements contained in the Company's filings with the Securities and Exchange Commission and in its reports to stockholders.

Statements, including those in this report, which are not historical or current facts are "forward-looking statements" made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. There are certain important factors that could cause results to differ materially from those anticipated by some of the statements made herein. Investors are cautioned that all forward-looking statements involve risk and uncertainty. Some of the factors that could affect results are the effectiveness of new product introductions, the product mix of our sales, the cost of raw materials, the amount of sales generated and the profit margins thereon or volatility in the major markets, competition and general economic conditions.

The Company specifically declines to undertake any obligation to publicly revise any forward-looking statements that have been made to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

The NASDAQ -- National Market System, is the principal market on which the registrant's Common Stock is being traded. The market prices for the stock and the dividends paid per common share, for each quarterly period during the past two years is shown in the registrant's Annual Report to Shareholders for the Year Ended June 30, 1997, and is incorporated herein by reference.

There were approximately 1,920 holders of Common Stock of the registrant as of June 30, 1997.

ITEM 6. SELECTED FINANCIAL DATA

This information is contained on page 6 in the registrant's Annual Report to Shareholders for the Year Ended June 30, 1997, under the caption "Five Year Review" and is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis is contained on page 7 in the registrant's Annual Report to Shareholders for the Year Ended June 30, 1997 and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following financial statements of the Company included in the financial report section of the Annual Report to Shareholders for the Year Ended June 30, 1997, are incorporated herein by reference:

	PAGE(S)
Balance Sheets, June 30, 1997, 1996.....	7
Statements of Income and Changes in Shareholders' Equity -- Years Ended June 30, 1997, 1996, 1995 .....	8
Statements of Cash Flows -- Years Ended June 30, 1997, 1996, 1995.....	9
Quarterly Financial Data 1997, 1996.....	11
Notes to Financial Statements.....	10-11
Independent Auditors' Report.....	6

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

During fiscal 1997 there were no changes in or disagreements with accountants on accounting procedures or accounting and financial disclosures.

PART III

ITEMS 10, 11, 12. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT, EXECUTIVE COMPENSATION AND SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information identifying directors of the registrant, executive compensation and beneficial ownership of registrant stock and supplementary data is contained in the registrant's 1997 definitive Proxy Statement to be filed with the Securities and Exchange Commission and is incorporated herein by reference. Executive officers are identified in Part I, Item 4 above.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

This information is contained under the heading "Certain Relationships and Related Transactions" in the registrant's 1997 definitive Proxy Statement to be filed with the Securities and Exchange Commission and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) (1) Financial Statements

The financial statements of the registrant included in the Annual Report to Shareholders for the Year Ended June 30, 1997, are incorporated herein by reference as set forth above in ITEM 8.

(2) Schedules

The following financial schedules for the years ended 1997, 1996 and 1995 are submitted herewith:

	PAGE
	----
SCHEDULE VIII -- Reserves	8

Other schedules are omitted because they are not required or are not applicable or because the required information is included in the financial statements incorporated by reference above.

(3) Exhibit No.

- 3.1 Restated Articles of Incorporation incorporated by reference to Exhibits to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1988.
- 3.2 Bylaws of the Registrant incorporated by reference to Exhibits to the Annual Report on Form 10-K for the fiscal year ended June 30, 1994.
- 11 Computation of Earnings Per Share.
- 13 Annual Report to Shareholders for the Year Ended June 30, 1997.
- 99 1997 Form 11-K for Salaried Employee's Savings Plan 401(k).
- 23.1 Independent Auditor's Report.
- 22 1997 definitive Proxy Statement incorporated by reference is to be filed with the Securities Exchange Commission on or before December 1, 1997.
- 23.2 Consent of Independent Auditors.
- 4 Instruments defining the rights of security holders, including indentures. The issuer has not filed, but agrees to furnish upon request to the Commission copies of the Mississippi Industrial Development Revenue Bond Agreement issued regarding the issuer's facilities in Starkville, MS.

(b) REPORTS ON FORM 8-K

No reports on Form 8-K were filed during the last quarter of the fiscal year ended June 30, 1997.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: September 9, 1997

FLEXSTEEL INDUSTRIES, INC.

By: /S/ K.B LAURITSEN  
K. B. LAURITSEN  
PRESIDENT, CHIEF EXECUTIVE OFFICER  
and  
PRINCIPAL EXECUTIVE OFFICER

By: /S/ R.J. KLOSTERMAN  
R. J. KLOSTERMAN  
VICE PRESIDENT OF FINANCE  
and  
PRINCIPAL FINANCIAL OFFICER

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date:	September 9, 1997	/S/ FRANK H. BERTSCH Frank H. Bertsch DIRECTOR
Date:	September 9, 1997	/S/ J. B. CRAHAN J. B. Crahan DIRECTOR
Date:	September 9, 1997	/S/ ART D. RICHARDSON Art D. Richardson DIRECTOR
Date:	September 9, 1997	/S/ K. BRUCE LAURITSEN K. Bruce Lauritsen DIRECTOR
Date:	September 9, 1997	/S/ EDWARD J. MONAGHAN Edward J. Monaghan DIRECTOR
Date:	September 9, 1997	/S/ JAMES G. PETERSON James G. Peterson DIRECTOR
Date:	September 9, 1997	/S/ THOMAS E. HOLLORAN Thomas E. Holloran DIRECTOR
Date:	September 9, 1997	/S/ JAMES R. RICHARDSON James R. Richardson DIRECTOR
Date:	September 9, 1997	/S/ L. BRUCE BOYLEN L. Bruce Boylen DIRECTOR
Date:	September 9, 1997	/S/ JOHN R. EASTER John R. Easter DIRECTOR

SCHEDULE VIII

FLEXSTEEL INDUSTRIES, INC.

RESERVES  
FOR THE YEARS ENDED JUNE 30, 1997, 1996 AND 1995

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E
DESCRIPTION	BALANCE AT BEGINNING OF YEAR	ADDITIONS CHARGED TO INCOME	DEDUCTIONS FROM RESERVES (NOTE)	BALANCE AT CLOSE OF YEAR
Allowance for Doubtful Accounts:				
1997 .....	\$ 2,153,000	\$ 831,000	\$ 186,000	\$ 2,798,000
1996 .....	\$ 2,160,000	\$ 1,246,000	\$ 1,253,000	\$ 2,153,000
1995 .....	\$ 1,960,000	\$ 574,000	\$ 374,000	\$ 2,160,000

NOTE -- UNCOLLECTIBLE ACCOUNTS CHARGED AGAINST RESERVE, LESS RECOVERIES.

## FLEXSTEEL INDUSTRIES, INC.

## COMPUTATION OF EARNINGS PER SHARE

	YEAR ENDED JUNE 30				
	1997	1996	1995	1994	1993
Primary (Note 1):					
Net earnings applicable to common stock .....	\$6,048,434	\$4,502,170	\$5,210,903	\$6,787,163	\$6,184,914
Weighted Average Number of shares outstanding during the year .....	7,024,021	7,172,299	7,178,285	7,140,144	7,090,041
Earnings Per Share .....	\$ .86	\$ .63	\$ .73	\$ .95	\$ .87

NOTE 1-- The calculation of earnings per share for the five years ended June 30, 1997 excludes the effect of common equivalent shares resulting from outstanding stock options as the effect would not be material. The effect on 1997, 1996, 1995, 1994, and 1993 earnings per share, assuming exercise of dilutive stock options by the treasury stock method, would reduce earnings per share by less than 3% (1997, \$6,048,434 / 7,057,216 shares = \$.857 or .5%; 1996, \$4,502,170 / 7,188,908 shares = \$.626 or .0%; 1995, \$5,210,903 / 7,178,285 shares = \$.726 or .0%; 1994, \$6,787,163 / 7,170,070 share = \$.947 or .4%; 1993, \$6,184,914 / 7,137,694 shares = \$.867 or .6%).

FLEXSTEEL INDUSTRIES INCORPORATED

ENHANCING EXCELLENCE

[PHOTO]

[LOGO]  
FLEXSTEEL(R)  
AMERICA'S SEATING SPECIALIST

FINANCIAL HIGHLIGHTS

Year Ended June 30	1997	1996	1995
Net Sales.....	\$219,427,000	\$205,008,000	\$208,432,000
Income Before Taxes.....	9,473,000	7,052,000	8,111,000
Net Income.....	6,048,000	4,502,000	5,211,000
Per Share of Common Stock			
Earnings .....	.86	.63	.73
Cash Dividends.....	.48	.48	.48
Average Shares Outstanding.....	7,024,000	7,172,000	7,178,000
At June 30			
Working Capital.....	44,357,000	47,376,000	46,272,000
Net Plant and Equipment.....	26,214,000	23,046,000	24,376,000
Total Assets.....	99,173,000	95,874,000	96,271,000
Shareholders' Equity.....	75,238,000	74,147,000	73,824,000
Long-Term Debt.....	0	35,000	70,000

[BAR CHARTS]

NET SALES  
(MILLIONS OF DOLLARS)

EARNINGS PER SHARE  
(DOLLARS)

CASH DIVIDENDS PER SHARE  
(DOLLARS)

BOOK VALUE PER SHARE  
(DOLLARS)

RETURN ON COMMON EQUITY  
(PERCENT)

[LOGO]  
FLEXSTEEL(R)  
AMERICA'S SEATING SPECIALIST

[PHOTO]

FRONT COVER: "Lifestyle" collections such as this grouping, presenting pieces that are beautifully compatible, capture the consumer's imagination. Louis XVI influences and handsome carving distinguish the Charisma(R) chair and ottoman. The sofa is from our "Casual Collections" group, with relaxed styling in the popular "slip-cover" look and waterfall pleats.

ENHANCING EXCELLENCE: FLEXSTEEL'S UNIQUE CHALLENGE

TO OUR SHAREHOLDERS

[LOGO]

We are pleased to announce that fiscal 1997 showed marked improvements for Flexsteel Industries, Inc. We achieved record revenues and improved our earnings despite a persistently competitive marketplace.

Consolidated sales for the fiscal year ending June 30, 1997, totaled \$219,427,000, an all-time high and an increase of 7% over revenues of \$205,008,000 the previous fiscal year. Our net earnings for the year were \$6,048,000, or \$.86 per share, compared to earnings of \$4,502,000 or \$.63 per share a year earlier.

This is progress in a retail environment which, for our industry, remains challenging; we remain, however, committed to goals which will further improve our results. We continue developing and implementing changes which will improve shareholder value.

RESIDENTIAL SEATING

Residential furniture sales began the fiscal year with modest gains in the extremely competitive domestic market. International sales, although a small percentage of our sales, were up significantly, even though the strength of the dollar, plus prevailing economic conditions in Canada and Mexico, were not especially favorable for sales of exported furniture.

The major furniture market, both domestically and internationally, is held in High Point, North Carolina, and this spring your company introduced some of its most exciting new styles. These introductions were very well received in spite of reduced attendance resulting from slower retail furniture sales. Our enlarged showroom allowed us to display our new Collections more completely, in coordinated displays that emphasized today's less structured, softer, and more comfortable home fashions.

Flexsteel's emphasis on growth continues with the new Comfort Seating Stores which will give us a dynamic presence in major metropolitan markets where we have been less visible in the past. At the same time, we are updating our dealers' in-store Flexsteel Galleries; both are, like our collections, cohesive and dynamic. Special packages of signage, photography and other dealer aids are put together by Flexsteel designers for maximum effectiveness and consumer appeal.

[PHOTO]  
JACK B. CRAHAN, CHAIRMAN OF THE BOARD (L) AND K. BRUCE LAURITSEN, PRESIDENT AND CHIEF EXECUTIVE OFFICER. THE SOFA IS TYPICAL OF THOSE IN OUR "LIFESTYLES" COLLECTIONS.

We expect furniture supply to exceed demand over the next few months, with resultant continuing pressure on prices and profit margins. The economy is booming, yet the furniture market is more complex, competitive, and intense than ever.

[PHOTO]  
INTERESTING FABRICS COMBINE IN THIS "COLLAGE" SOFA, A POPULAR CHOICE. SHOWN WITH A POET'S CHAIR AND OTTOMAN SCALED FOR MAXIMUM COMFORT.

## RECREATIONAL VEHICLE SEATING

The year began with a decline in sales of converted vans as more consumers turned to sports utility vehicles. As consumer confidence grew, our sales improved nicely in the second half of our fiscal year. Revenues in this division are at record levels as we continue to increase our market share.

In March we announced the acquisition of the assets of Dygert Seating, Inc. including their RV seating production facility in Elkhart, Indiana. Dygert Seating, who had previously purchased another RV seating maker, Goshen Cushion, reported sales of over \$30 million in 1996. We have long been a leading supplier to high-end motor homes and van conversions, and the addition of Dygert's lines gives us broader market coverage as well as greater production capacity in the van, sport vehicle, and light truck markets.

## COMMERCIAL SEATING

We previously reported to you that we were consolidating production of our exposed wood chairs and contract seating line at our recently expanded and updated plant in Starkville, Mississippi. This transition has been completed, and in the third quarter we sold the facility in Sweetwater, Tennessee. With sales up 15% over the past year, even that facility has been hard-pressed to keep up with demand, and we have had to temporarily produce some orders in our other plants, resulting in a decrease in profit margins because of higher labor and overhead costs.

We are confident of excellent future prospects in both the health care and hospitality fields, and we are totally committed to increasing capacity at Starkville. We have an excellent relationship with Stryker Medical who represents us in the health care field, and sales remain buoyant.

## VISIT OUR WEB SITE

We encourage you to visit our web site (<http://flexsteel.com>) installed last October and featuring products from all divisions of Flexsteel. There is a news section including the latest financial releases plus cross links to both NASDAQ Online and QUOTE.COM which allows you to access the latest Flexsteel stock prices. We continue to improve this major online site; our latest addition is implementing the Flexsteel "Smart Shopper" e-mail data base marketing program to potential Flexsteel customers.

## JAMES G. PETERSON TO RETIRE

Mr. James G. Peterson, who has been a valuable member of Flexsteel's Board of Directors since we went public in 1969, has announced that he will retire from our Board effective at the December 1997 Annual Stockholders' meeting. He earned our respect and admiration for his strong and creative contributions, and we will miss his wisdom and counsel.

## OUTLOOK

Looking to the future, it appears we can expect a reasonable period of growth. Interest rates and inflation are low, and consumer confidence is high. In this market, one thing becomes abundantly clear - it is no longer "business as usual." Consumers insist on choice, and the manufacturer who has not cut costs and made significant operational changes, including applications of advanced information and material technologies, will simply not survive.

As challenging as that may sound, your company will continue to take advantage of the many opportunities for future growth. Every aspect of our business is under scrutiny to help us increase earnings and improve shareholder's value. We are continuing our stock repurchase program and are committed to future dividend reviews. Our current dividend is one of the highest among our peer companies and we have paid uninterrupted dividends since 1938.

We look forward to reporting our progress to you next year.

/s/ Jack B. Crahan

JACK B. CRAHAN  
CHAIRMAN OF THE BOARD OF DIRECTORS

/s/ K. Bruce Lauritsen

K. BRUCE LAURITSEN  
PRESIDENT & CHIEF EXECUTIVE OFFICER

[PHOTO]

[PHOTO]

COMFORT ON THE ROAD: FLEXSTEEL SEATING GRACES THE INTERIOR OF A FLEETWOOD PROWLER, TOP. LUXURIOUS RELAXING IN THE SHERATON BOSTON'S CIGAR LOUNGE, DESIGNED BY JOANNE SPENCER, RIGHT.



ENHANCING EXCELLENCE: ELEGANCE AND PRACTICALITY

[LOGO]

FURNITURE REFLECTS FASHION. BUYERS ARE CHOOSING A LESS-STRUCTURED LIFESTYLE IN EVERYTHING FROM ENTERTAINING TO CLOTHING, CHOICES RICHLY REFLECTED IN THE HOME ENVIRONMENTS THEY CREATE FOR THEMSELVES.

Flexsteel designers of home fashions have responded with furniture that reflects these lifestyle choices.

These were beautifully portrayed in our Lifestyle Collections which were introduced at our April High Point Market and very well received.

A softer look permeated these collections with such details as relaxed pleats, soft, plush and downy cushions, and gentler tailoring. The result, in many styles, is closer to a slip-cover look but is more disciplined for more enduring good looks. It also allows us to retain the sense of elegance that reflects quality, even in casual styles, and appeals to today's consumer.

The collections concept also fits neatly into our upscaled Flexsteel Gallery presentations and the new, highly-integrated Comfort Seating showrooms. It contributes to more sales, for the customer with a vision of a personal look may find it not in a single piece but in several that combine to create that look.

Leather is still popular for its prestige, natural good looks, strength, and practicality. Flexsteel designers, adept at the selection and application of leather, have developed today's softer look, using hides chosen for their excellent hand.

High-leg recliners and Press back chair-and-ottoman combinations answer a growing demand for comfort with a sense of elegance. Our new Press back chairs, which allow the user to recline by leaning against the chair back, have been well received.

In our commercial seating markets of extended-stay hotels and retirement living, we see similar trends. In those new or remodeled hotels and motels offering suites, Flexsteel seating - especially recliners - are appearing more often. Fine, durable, specially designed Flexsteel seating is also at home in senior living facilities where the thrust has been to make surroundings less institutional and as residential and pleasant as possible. Even our health-care furniture, created to meet special problems such as incontinence, reflects our designers dedication to handsome furniture.

Our RV seating designers meet today's relaxed attitude with sleek automotive styling, while in motor homes and travel trailers they continue to create seating for distinctive interiors that must also emphasize comfort and safety.

From their homes to their vacations, our customers find their lifestyles reflected in Flexsteel's fine furniture and seating, all designed to be a joy to live with.

[PHOTO]

[PHOTO]

RELAXED AND CASUAL ELEGANCE, TYPICAL OF TODAY'S FASHIONS, IS CAPTURED IN A STUNNING CONVERSATIONAL GROUP IN LEATHER, TOP. THE MIXED-MEDIA TABLE, RECENTLY ADDED TO THE FLEXSTEEL LINE, COORDINATES BEAUTIFULLY. HIGH-LEG RECLINERS, LIKE THE SPOON-LEG RECLINER AT RIGHT, ARE POPULAR.

[LOGO]

FINE FURNITURE BY INSPIRED DESIGNERS STILL NEEDS THE HANDS-ON EXPERTISE OF FLEXSTEEL'S SKILLED ARTISANS TO COME TO BEAUTIFUL LIFE. TODAY'S TECHNOLOGY EXTENDS THE REACH OF THE DESIGNER AND ASSISTS THE HANDS OF THE CRAFTSMAN.

The rapid development of information technology means we can reach more potential customers and give them more up-to-date information. We continue to develop our own applications for faster, more accurate communication with our dealers. We use it to schedule delivery of components to our associates creating finished pieces of beautiful furniture. Communication is also faster and more convenient for our associates and our suppliers. We can schedule shipping and production for efficient, just-in-time deliveries. All these techniques shorten turn-around time from order to delivery.

Flexsteel's home page on the Internet received over 50,000 hits last month. With our Flexsteel "Smart Shopper" data base program, our potential customers can learn, via e-mail, of special promotions at the nearest Flexsteel dealer. The home page emphasizes our quality story through handsome photography and cut-aways of construction details. The customer may even, through Broder bound's 3D Home Interiors software, see how selected items of Flexsteel furniture will appear in a room she is designing.

Our totally integrated Comfort Seating Showrooms provide us, the dealer, and the shopper the maximum advantages of the latest technology. Customers view Flexsteel styles on our Sneak Preview video catalog and can even see the effect of fabric choice on frame choice. With the instantaneous communication provided by EDI (Electronic Data Interchange), the dealer can check availability of that fabric, place an order, and obtain a delivery date while the customer is in the store.

Advancements in materials technology allow us to offer softer cushions in home seating and molded foam in recreational vehicle seats. In both cases, consistency and user comfort are increased and production is simplified. We've also applied technology to frames: by using laminated hardwoods, we've made our frames stronger and more durable while using natural resources more efficiently.

Exciting technology applications are all through Flexsteel: gallery designers use CAD (Computer-Aided Design), while our plants are equipped with CNC routers and computer controlled cutters; our RV seating designers are developing intelligent seat systems with power throughout. They have already developed an integral seat belt for bucket seats in motor homes, and a patent is pending on an adjustable arm rest that remains parallel with the floor when the seat reclines.

High tech helps us maintain quality and simplify tasks, but in the end it is still the human touch that ensures that Flexsteel furniture is always a beautiful pleasure to own.

[PHOTO]

[PHOTO]

FROM THE CASUAL CLASSIC COLLECTION: A PILLOW BACK SOFA WITH APPLE-SHAPED FEET; THE EVER-POPULAR WING CHAIR UPDATED; AND FLEXSTEEL OCCASIONAL TABLES, ABOVE. OUR NEWLY-DEVELOPED, INTEGRATED SEAT BELT ADDS COMFORT AND SAFETY TO A HANDSOME MOTOR HOME BUCKET SEAT, RIGHT.

## ENHANCING EXCELLENCE: EXPANDING MARKETS

OUR INDEPENDENT DEALERS HAVE HISTORICALLY BEEN THE SOURCE OF FLEXSTEEL'S STRENGTH. IN CITIES ACROSS THE NATION, THEY ARE OUR LINK TO THE HOME FURNISHINGS MARKET WHERE CONSUMER LOYALTY IS BUILT.

Though many of the smaller retailers that dominated the market a few decades ago have disappeared, the surviving dealers are larger and stronger than ever. To continue in their strong market positions, it is essential to such dealers to have a dependable relationship with an equally strong manufacturer. Flexsteel, with its extensive dealer programs, offers its dealers a breadth of line and many support functions that are not available from the smaller manufacturers.

In dealers' in-store Flexsteel Galleries and in the new free-standing Comfort Seating Showrooms, our designers help with the showroom design from vignettes to color choices to patterns of traffic flow. Dealer support includes national advertising, numerous print and electronic advertising aids, plus tie-ins to our Web site on the Internet. Our dealers opened nine new Flexsteel in-store galleries during fiscal 1997, and eight more are scheduled to open by year-end. Three Comfort Seating Showrooms are already open and five more are in various stages of planning. These Comfort Seating Showrooms are giving us a strong new presence in such major metropolitan markets as Chicago and Milwaukee.

We recently expanded our regional sales manager staff. We now have four managers instead of three, allowing each manager to better focus on our sales associates and their customers.

Major multiple stores, such as J. C. Penney and Sears, provide another important outlet for our upholstered furniture. We are quite proud that we received, for the second consecutive year, the Sears Quality Award, resulting from a rigorous evaluation of market performance and quality of our product and service.

The necessity of quick responsiveness to a sometimes unpredictable market is nowhere more visible than in the market for recreational seating. After a love affair lasting almost twenty years with converted vans, many consumers have switched their loyalties to sports utility vehicles and light trucks.

Flexsteel's seating sales in this market, however, remain strong with our addition of expanded lines for pickups and other utility vehicles. Recently, through our purchase of Dygert Seating, we've expanded our presence into more price brackets of the market. With our already-strong presence in motor homes and other high-end vehicles, we are now the largest supplier of seating for recreational vehicles.

We have also found a promising market in the marine industry. Flexsteel designs are now in all 17 models produced by Carver Boats. (See photo on back cover.)

Throughout our more than a century of history, Flexsteel's maintenance of excellent relations with our customers has been an essential component to our continuing success in the marketplace.

[PHOTO]

[PHOTO]

UPHOLSTERED CHAIRS WITH CARVED-WOOD ARMS AND LEGS, LIKE THIS CHARISMA(R) CHAIR, RIGHT ABOVE, CONTINUE IN DEMAND. A TOP SELLER IN THE VAN CONVERSION MARKET IS THE DYGERT-DESIGNED GROUP, RIGHT, WITH SMART AUTOMOTIVE DETAILING ON SEATS AND BACK.

FLEXSTEEL INDUSTRIES, INC.  
FIVE YEAR REVIEW

(All amounts in thousands except for Per Share data)

	1997	1996	1995	1994	1993
	----	----	----	----	----
<b>SUMMARY OF OPERATIONS</b>					
Net Sales.....	\$219,427	\$205,008	\$208,432	\$195,388	\$177,271
Cost of Sales.....	173,088	161,451	164,231	151,066	136,110
Interest and Other Expense.....	345	358	372	270	252
Interest and Other Income.....	1,833	1,048	973	990	1,460
Income Before Taxes.....	9,473	7,052	8,111	10,092	9,710
Income Taxes.....	3,425	2,550	2,900	3,625	3,525
Net Income (1).....	6,048	4,502	5,211	6,787	6,185
Earnings per Common Share (1).....	.86	.63	.73	.95	.87
Cash Dividends per Common Share.....	.48	.48	.48	.48	.48
<b>STATISTICAL SUMMARY</b>					
Average Common Shares Outstanding.....	7,024	7,172	7,178	7,140	7,090
Book Value per Common Share.....	10.86	10.45	10.28	9.98	9.57
Total Assets.....	99,173	95,874	96,271	95,088	87,861
Net Plant and Equipment.....	26,214	23,046	24,376	18,829	17,208
Capital Additions.....	5,273	3,298	9,948	5,074	3,273
Working Capital.....	44,357	47,376	46,272	47,787	49,707
Long-Term Debt.....	0	35	70	105	140
Shareholders' Equity.....	75,238	74,147	73,824	71,289	67,855
<b>SELECTED RATIOS</b>					
Earnings as Percent of Sales.....	2.8%	2.2%	2.5%	3.5%	3.5%
Current Ratio.....	3.1	3.5	3.4	3.3	3.9%
Return on Total Capital.....	8.0%	6.1%	7.1%	9.5%	9.1%
Return on Beginning Common Equity.....	8.2%	6.1%	7.3%	10.0%	9.6%
Average Number of Employees.....	2,320	2,230	2,375	2,240	2,120

(1) 1994 income and per share amounts reflect cumulative effect of accounting change as of June 30, 1994, of \$320,000 (net of income taxes) or \$.04 per share income.

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF FLEXSTEEL INDUSTRIES, INC.:

We have audited the accompanying balance sheets of Flexsteel Industries, Inc. as of June 30, 1997 and 1996, and the related statements of income and changes in shareholders' equity and cash flows for each of the three years in the period ended June 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Flexsteel Industries, Inc. as of June 30, 1997 and 1996, and the results of its operations and cash flows for each of the three years in the period ended June 30, 1997 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP

MINNEAPOLIS, MINNESOTA  
AUGUST 8, 1997

FLEXSTEEL INDUSTRIES, INC.  
BALANCE SHEETS

	JUNE 30,	
	1997	1996
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents.....	\$ 4,445,327	\$ 3,867,742
Investments .....	5,041,154	8,940,603
Trade receivables - less allowance for doubtful accounts: 1997, \$2,799,000; 1996, \$2,153,000.....	25,348,941	24,464,171
Inventories.....	26,985,554	26,082,857
Deferred income taxes.....	2,620,000	2,010,000
Other.....	806,117	732,054
Total current assets.....	65,247,093	66,097,427
PROPERTY, PLANT AND EQUIPMENT, net.....	26,214,405	23,046,224
OTHER ASSETS.....	7,711,179	6,730,513
TOTAL.....	\$99,172,677	\$95,874,164
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable - trade.....	\$ 3,845,362	\$ 3,574,232
Accrued liabilities:		
Payroll and related items.....	4,440,219	3,433,562
Insurance.....	6,057,093	5,347,758
Other accruals.....	4,237,556	3,731,364
Industrial revenue bonds payable.....	2,310,000	2,635,000
Total current liabilities.....	20,890,230	18,721,916
LONG-TERM DEBT.....		35,000
DEFERRED COMPENSATION .....	3,044,418	2,969,847
Total liabilities.....	23,934,648	21,726,763
SHAREHOLDERS' EQUITY:		
Common stock - \$1 par value; authorized 15,000,000 shares; issued 1997, 6,927,310 shares; 1996, 7,095,044 shares .....	6,927,310	7,095,044
Additional paid-in capital.....		556,632
Retained earnings.....	67,750,719	66,266,325
Unrealized investment gain.....	560,000	229,400
Total shareholders' equity.....	75,238,029	74,147,401
TOTAL.....	\$99,172,677	\$95,874,164

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

REPORT OF MANAGEMENT

To the Shareholders of Flexsteel Industries, Inc.:

Management is responsible for the financial and operating information contained in this Annual Report, including the financial statements covered by the report of Deloitte & Touche LLP, our independent auditors. The statements were prepared in conformity with generally accepted accounting principles and include amounts based on estimates and judgments of management.

The Company maintains a system of internal controls to provide reasonable assurance that the books and records reflect the authorized transactions of the Company. There are limits inherent in all systems of internal control because their cost should not exceed the benefits derived. The Company believes its system of internal controls and internal audit functions balance the cost/benefit relationship.

The Audit & Ethics Committee of the Board of Directors, composed solely of outside directors, annually recommends to the Board of Directors the appointment of the independent auditors that are engaged to audit the financial statements of the Company and to express an opinion thereon. The independent auditors' opinion is expressed on page 6. The Audit & Ethics Committee meets periodically with the independent auditors to review financial reports, accounting and auditing practices and controls.

PRESIDENT  
CHIEF EXECUTIVE OFFICER

VICE PRESIDENT, FINANCE  
CHIEF FINANCIAL OFFICER  
SECRETARY

FLEXSTEEL INDUSTRIES, INC.  
 STATEMENTS OF INCOME AND  
 CHANGES IN SHAREHOLDERS' EQUITY

STATEMENTS OF INCOME

FOR THE YEARS ENDED JUNE 30,

	1997	1996	1995
NET SALES.....	\$219,426,736	\$205,008,245	\$208,432,198
OPERATING EXPENSES:			
Cost of goods sold.....	173,088,406	161,450,649	164,230,883
Selling, general and administrative.....	38,352,665	37,195,178	36,692,054
Total.....	211,441,071	198,645,827	200,922,937
OPERATING INCOME.....	7,985,665	6,362,418	7,509,261
OTHER:			
Interest and other income.....	1,832,917	1,048,074	973,371
Interest and other expense.....	(345,148)	(358,322)	(371,729)
Total.....	1,487,769	689,752	601,642
INCOME BEFORE INCOME TAXES.....	9,473,434	7,052,170	8,110,903
PROVISION FOR INCOME TAXES.....	3,425,000	2,550,000	2,900,000
NET INCOME.....	\$ 6,048,434	\$ 4,502,170	\$ 5,210,903
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING .....	7,024,021	7,172,299	7,178,285
EARNINGS PER SHARE OF COMMON STOCK.....	\$ .86	\$ .63	\$ .73

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	UNREALIZED INVESTMENT GAIN (LOSS)	TOTAL
	SHARES	PAR VALUE				
Balance at June 30, 1994	7,155,012	\$7,155,012	\$1,015,940	\$63,437,854	\$(320,000)	\$71,288,806
Issuance of Company Stock	38,112	38,112	370,814			408,926
Investment Valuation Adjustment					364,000	364,000
Cash Dividends				(3,449,054)		(3,449,054)
Net Income				5,210,903		5,210,903
Balance at June 30, 1995	7,193,124	7,193,124	1,386,754	65,199,703	44,000	73,823,581
Purchase of Company Stock	(132,453)	(132,453)	(1,178,986)			(1,311,439)
Issuance of Company Stock	34,373	34,373	348,864			383,237
Investment Valuation Adjustment					185,400	185,400
Cash Dividends				(3,435,548)		(3,435,548)
Net Income				4,502,170		4,502,170
Balance at June 30, 1996	7,095,044	7,095,044	556,632	66,266,325	229,400	74,147,401
Purchase of Company Stock	(186,345)	(186,345)	(722,573)	(1,212,626)		(2,121,544)
Issuance of Company Stock	18,611	18,611	165,941			184,552
Investment Valuation Adjustment					330,600	330,600
Cash Dividends				(3,351,414)		(3,351,414)
Net Income				6,048,434		6,048,434
Balance at June 30, 1997	6,927,310	\$6,927,310	\$ 0	\$67,750,719	\$ 560,000	\$75,238,029

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

FLEXSTEEL INDUSTRIES, INC.  
STATEMENTS OF CASH FLOW

FOR THE YEARS ENDED JUNE 30,

	1997	1996	1995
<b>OPERATING ACTIVITIES:</b>			
Net income .....	\$ 6,048,434	\$ 4,502,170	\$ 5,210,903
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation .....	5,129,246	4,619,511	4,135,053
(Gain) loss on disposition of capital assets .....	(646,050)	(83,878)	49,004
Trade receivables .....	688,561	(1,559,124)	2,710,379
Inventories .....	637,112	(161,183)	663,723
Other current assets .....	256,487	112,503	68,744
Other assets .....	(980,666)	(544,369)	(519,313)
Accounts payable - trade .....	271,130	(1,182,759)	(114,639)
Accrued liabilities .....	2,244,775	809,535	(895,856)
Deferred compensation .....	74,571	29,518	16,600
Deferred income taxes .....	(610,000)	(10,000)	340,000
Net cash provided by operating activities .....	13,113,600	6,531,924	11,664,598
<b>INVESTING ACTIVITIES:</b>			
Construction funds held in escrow .....			2,034,248
Payment for purchase of business assets .....	(6,933,951)		
Purchases of investments .....	(1,517,439)	(4,178,560)	(2,751,519)
Proceeds from sales of investments .....	5,747,488	3,691,972	4,565,254
Proceeds from sales of capital assets .....	1,112,201	91,818	216,451
Capital Expenditures .....	(5,273,317)	(3,297,623)	(9,947,507)
Net cash used in investing activities .....	(6,865,018)	(3,692,393)	(5,883,073)
<b>FINANCING ACTIVITIES:</b>			
Repayment of borrowings .....	(360,000)	(360,000)	(360,000)
Payment of dividends .....	(3,374,005)	(3,452,124)	(3,447,487)
Proceeds from issuance of common stock .....	184,552	383,237	408,926
Repurchase of common stock .....	(2,121,544)	(1,311,439)	
Net cash used in financing activities .....	(5,670,997)	(4,740,326)	(3,398,561)
Increase (decrease) in cash and cash equivalents .....	577,585	(1,900,795)	2,382,964
Cash and cash equivalents at beginning of year .....	3,867,742	5,768,537	3,385,573
Cash and cash equivalents at end of year .....	\$ 4,445,327	\$ 3,867,742	\$ 5,768,537
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>			
Cash paid during the year for			
Interest .....	\$ 103,000	\$ 123,000	\$ 135,000
Income taxes .....	\$ 3,640,000	\$ 1,927,000	\$ 3,555,000

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

FLEXSTEEL INDUSTRIES, INC.  
 NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS - Flexsteel Industries, Inc. (the Company) manufactures and sells upholstered furniture and other seating products.

USE OF ESTIMATES - the preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

FAIR VALUE - the Company's cash, accounts receivable, accounts payable, accrued liabilities and other liabilities are carried at amounts which reasonably approximate their fair value due to their short-term nature. Fair values of investments in debt and equity securities are disclosed in Note 2.

CASH EQUIVALENTS - the Company considers highly liquid investments with original maturities of less than three months as the equivalent of cash.

REVENUE RECOGNITION - is upon delivery of product.

INVENTORIES - are stated at the lower of cost or market. Raw steel, lumber and wood frame parts are valued on the last-in, first-out (LIFO) method. Other inventories are valued on the first-in, first-out (FIFO) method.

PROPERTY, PLANT AND EQUIPMENT - is stated at cost and depreciated using the straight-line method.

INSURANCE - The Company is self-insured for health care and most worker's compensation up to predetermined amounts above which third party insurance applies. The Company is contingently liable to insurance carriers under the comprehensive general, product, and vehicle liability policies, as well as, some worker's compensation, and has provided a letter of credit in the amount of \$1,623,000. Losses are accrued based upon the Company's estimates of the aggregate liability for claims incurred using certain actuarial assumptions followed in the insurance industry and based on Company experience.

INCOME TAXES - deferred income taxes result from temporary differences between the tax basis of an asset or liability and its reported amount in the financial statements.

EARNINGS PER SHARE - are based on the weighted average number of common shares outstanding during each year. The exercise of employee stock options would have no material effect on earnings per share.

ACQUISITION - on March 18, 1997 the Company announced the acquisition of certain assets of Dygert Seating, Inc. and the related production facilities in Elkhart, Indiana for \$6,933,951. The purchase included accounts receivable of approximately \$1,573,000, inventory of approximately \$1,540,000, and fixed and other current assets of approximately \$3,821,000.

RECLASSIFICATIONS - certain prior years' amounts have been reclassified to conform to the 1997 presentation.

2. INVESTMENTS

Debt and equity securities are included in Investments and in Other Assets, at fair value based on quoted market prices, and are considered as available for sale. The amortized cost and estimated market values of investments are as follows:

	June 30, 1997		June 30, 1996	
	Debt Securities	Equity Securities	Debt Securities	Equity Securities
Amortized Cost	\$ 5,505,167	\$ 2,315,994	\$ 8,987,896	\$ 2,296,905
Unrealized gains (losses)	(27,689)	904,344	(144,740)	499,199
Est. Market Value	\$ 5,477,478	\$ 3,220,338	\$ 8,843,156	\$ 2,796,104

As of June 30, 1997, the maturities of debt securities are \$1,984,560 within one year, \$3,174,743 in one to five years, and \$318,175 over six years.

3. INVENTORIES

Inventories valued on the LIFO method would have been approximately \$2,001,000 and \$2,024,000 higher at June 30, 1997 and 1996, respectively, if they had been valued on the FIFO method. A comparison of inventories is as follows:

	June 30,	
	1997	1996
Raw materials.....	\$ 13,529,232	\$ 12,936,114

Work in process and finished parts	7,689,051	7,594,621
Finished goods.....	5,767,271	5,552,122
	-----	-----
Total.....	\$ 26,985,554	\$ 26,082,857
	=====	=====

4. PROPERTY, PLANT AND EQUIPMENT

	Estimated Life (Years)	June 30,	
		1997	1996
	-----	-----	-----
Land.....		\$ 1,642,422	\$ 1,609,572
Buildings and improvements.....	3 - 50	24,485,437	23,710,516
Machinery and equipment.....	3 - 15	28,024,677	24,455,532
Delivery equipment..	2 - 9	13,818,489	13,041,661
Furniture and fixtures	3 - 15	5,205,537	4,440,375
		-----	-----
Total.....		73,176,562	67,257,656
Less accumulated depreciation.....		46,962,157	44,211,432
		-----	-----
Net.....		\$26,214,405	\$23,046,224
		=====	=====

5. BORROWINGS

The Company is obligated for \$2,275,000 for Industrial Revenue Bonds at June 30, 1997 which were issued for the financing of property, plant and equipment. The obligations are variable rate demand bonds with a weighted average rate for years ended June 30, 1997, 1996, and 1995 of 3.94%, 4.13%, and 4.05%, respectively, and are due in annual installments of \$325,000 through 2004, if not paid earlier upon demand of the holder. The Company has issued a letter of credit to guarantee the payment of these bonds in the event of default. No amounts were outstanding on this letter at June 30, 1997. In addition, the Company is obligated for General Obligation Development Bonds of \$35,000 bearing interest at 5.0% payable in 1998.

6. INCOME TAXES

The total income tax provision for the years ended June 30, 1997, 1996, and 1995 was 36.2%, 36.2% and 35.8%, respectively, of income before income taxes.

PROVISION - COMPRISED OF THE FOLLOWING:

	1997	1996	1995
Federal - current..	\$3,528,000	\$2,240,000	\$2,230,000
State - current....	507,000	320,000	330,000
Deferred.....	(610,000)	(10,000)	340,000
Total.....	\$3,425,000	\$2,550,000	\$2,900,000

DEFERRED INCOME TAXES - COMPRISED OF THE FOLLOWING:

	June 30, 1997	June 30, 1996
	Asset (Liability)	Asset (Liability)
Asset allowances.....	\$ 1,025,000	\$ 793,000
Deferred compensation.....	1,126,000	1,099,000
Other accruals and allowances..	1,756,000	1,542,000
Excess of tax over book depreciation	(1,287,000)	(1,424,000)
Total.....	\$ 2,620,000	\$ 2,010,000

7. CREDIT ARRANGEMENTS

The Company has lines of credit of \$5,700,000 with banks for short-term borrowings at the prime rate in effect at the date of the loan. On \$1,000,000 of such line, the Company is required to maintain compensating bank balances equal to 5% of the line of credit plus 5% of any amounts borrowed. There were no short-term bank borrowings during 1997 or 1996.

8. SHAREHOLDERS' EQUITY

The Company has authorized 60,000 shares of cumulative, \$50 par value preferred stock and 700,000 shares of undesignated, \$1 par value (subordinated) stock, none of which is outstanding.

9. STOCK OPTIONS

At June 30, 1997, 319,140 shares were available for future grants. The options granted under the stock option plans expire 10 years from the date of grant. Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," encourages, but does not require, companies to record compensation for stock-based employee compensation plans at fair value. The Company has chosen to continue to account for stock-based employee compensation plans using the intrinsic value method prescribed by the Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employee," and related interpretations. The effect of applying the fair value method of SFAS No. 123 to the Company's option plans would result in net income and net income per share that are not materially different from the amounts reported in the Company's financial statements.

Changes in options outstanding are as follows:

	Shares	Price Range
June 30, 1994 Outstanding	240,520	\$10.50 - 15.75
Granted.....	94,360	10.50 - 11.125
Exercised.....	(17,000)	11.00
Cancelled.....	(41,210)	10.50 - 14.875
June 30, 1995 Outstanding	276,670	10.50 - 15.75
Granted.....	91,950	11.25
Cancelled.....	(26,140)	10.50 - 14.875
June 30, 1996 Outstanding	342,480	10.50 - 15.75
Granted.....	103,400	10.25 - 12.75
Exercised.....	(6,800)	10.25 - 10.50
Cancelled.....	(6,900)	10.50 - 14.875
June 30, 1997 Outstanding	432,180	\$10.25 - 15.75

10. PENSION AND RETIREMENT PLANS

The Company sponsors various defined contribution pension and retirement plans which cover substantially all employees, other than employees covered by multiemployer pension plans under collective bargaining agreements. It is the Company's policy to fund all pension costs accrued. Total pension and retirement plan expense was \$1,352,000 in 1997, \$1,326,000 in 1996, and \$1,295,000 in 1995, including \$300,000 in 1997, \$287,000 in 1996, and \$274,000 in 1995, for the Company's matching contribution to retirement savings plans. The Company's cost for pension plans is determined as 2% - 4% of each covered employee's wages. The Company's matching contribution for the retirement savings plans is 25% - 50% of employee contributions (up to 4% of their earnings). In addition to the above, amounts charged to pension expense and contributed to multiemployer defined benefit pension plans administered

by others under collective bargaining agreements were \$1,102,000 in 1997, \$1,135,000 in 1996, and \$1,203,000 in 1995.

#### 11. MANAGEMENT INCENTIVE PLANS

The Company has an incentive plan that provides for shares of common stock to be awarded to key employees based on a targeted rate of earnings to common equity as established by the Board of Directors. Shares awarded to employees are subject to the restriction of continued employment with 33 1/3% of the stock received by the employee on the award date and the remaining shares issued after one and two years. Under the plan 31,053 and 13,687 shares were awarded, and the amounts charged to income were \$365,000, and \$150,000 in 1997 and 1995 respectively. No shares were awarded in 1996. At June 30, 1997, 348,257 shares were available for future grants.

#### 12. SUPPLEMENTARY QUARTERLY FINANCIAL INFORMATION

(UNAUDITED - in thousands of dollars, except per share amounts)

##### Quarters

	1st	2nd	3rd	4th
	---	---	---	---
1997:				
Net Sales.....	\$52,019	\$50,552	\$56,803	\$60,053
Gross Profit.....	11,374	10,775	11,802	12,387
Net Income.....	1,462	1,203	1,686(1)	1,697
Earnings Per Share....	.21	.17	.24(1)	.24
Dividends Per Share...	.12	.12	.12	.12

##### \* Market Price

High.....	12	13 3/4	13 5/8	12 1/2
Low.....	10 1/4	11 1/2	10 3/4	10 1/2

(1) Includes a gain on the sale of the Sweetwater, Tennessee facility of approximately \$350,000.

##### Quarters

	1st	2nd	3rd	4th
	---	---	---	---
1996:				
Net Sales.....	\$49,227	\$48,177	\$53,213	\$54,391
Gross Profit.....	9,857	9,687	11,689	12,325
Net Income .....	428	716	1,433	1,925
Earnings Per Share....	.06	.10	.20	.27
Dividends Per Share...	.12	.12	.12	.12

##### \* Market Price

High.....	12 5/8	12	10 3/4	11 3/4
Low.....	10 1/4	10 1/4	8 1/4	9 1/2

\* Reflects the market prices as quoted by the National Association of Securities Dealers, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS

FINANCIAL CONDITIONS

Working Capital - Flexsteel's working capital at June 30, 1997 is \$44,357,000 which includes cash, cash equivalents, and investments of \$9,486,000. Working capital decreased by \$3,019,000 from June 30, 1996. The decrease in working capital was primarily due to the purchase of certain assets of Dygert Seating, Inc., and the repurchase of Company common stock. The Company has lines of credit of \$5,700,000 with banks for short-term borrowings, which have not been utilized since 1979. The Company has outstanding borrowings of \$2,275,000 in the form of variable rate demand industrial development revenue bonds.

Capital Expenditures - Capital expenditures were \$8,703,000 in fiscal 1997 including approximately \$3,430,000 pertaining to the Dygert asset acquisition. Expenditures for manufacturing and delivery equipment were approximately \$5,273,000. Projected capital spending in fiscal 1998 is approximately \$3,000,000 for manufacturing and delivery equipment. The funds required for these expenditures will be provided from available cash.

Dividends - Dividends were \$.48 per share both years. The Board of Directors determines dividend levels based on the Company's ability to pay its obligations, capital expenditure requirements, and other related factors. The Company has paid dividends on its common stock for 222 consecutive quarters. The company expects to continue regular dividend payments. As of June 30, 1997 there were approximately 1,920 shareholders of Flexsteel's outstanding common stock.

Pending Accounting Changes - The Financial Accounting Standards Board (FASB) has issued SFAS No. 128 "Earnings Per Share" and SFAS No. 129 "Disclosure of Information about Capital Structure" which are effective for fiscal years ending after December 15, 1997. The FASB has also issued SFAS No. 130 "Reporting Comprehensive Income" and SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information" which are effective for fiscal years beginning after December 15, 1997. The Company expects that adoption of these statements will not have a material effect on the Company's results of operations or financial position when they are adopted.

Economic Conditions - With interest rates and inflation at relatively low levels and consumer confidence remaining high, demand for the Company's seating products should remain steady throughout fiscal 1998. The Company is positioned to capitalize on the consumer confidence which currently exists through product design efforts to better target specific residential furniture consumers, increased capacity and market penetration in the recreational vehicle market place, and maximization of growth opportunities in the hospitality and health care fields. These factors, in conjunction with continued efforts to identify and implement cost savings, improve manufacturing process efficiencies, and increase utilization of production facilities, should result in operating profit improvements.

RESULTS OF OPERATIONS

FISCAL 1997 COMPARED TO FISCAL 1996

Sales for 1997 increased by \$14,418,000 or 7.0% compared to 1996. Home Furnishings sales volume increased \$4,960,000 or 3.9%. Recreational Vehicle products increased \$6,481,000 or 11.2%. Approximately \$6,200,000 of this increase relates to the acquisition of Dygert Seating Inc. Commercial Seating volume increased \$2,977,000 or 16.4%. Cost of goods sold increased by \$11,638,000 for the year as compared to 1996 due to the volume increase. Selling, general and administrative expenses increased by \$1,157,000 due primarily to the Dygert acquisition and volume related increases in variable expenses. Selling, general, and administrative expenses, as a percentage of sales, decreased from 18.1% in fiscal 1996 to 17.5% in fiscal 1997. This percentage decrease reflects the Company's ability to control fixed costs in relation to the volume increase. Interest and other income increased by \$785,000, primarily due to a gain of approximately \$550,000 on the sale of the Sweetwater, Tennessee facility. The above factors resulted in fiscal year 1997 earnings of \$6,048,000 or \$.86 per share compared to \$4,502,000 or \$.63 per share in fiscal 1996, a net increase of \$1,546,000 or \$.23 per share.

FISCAL 1996 COMPARED TO FISCAL 1995

Sales for 1996 decreased by \$3,424,000 or 1.6% compared to 1995. Home Furnishings sales volume decreased \$2,848,000 or 2.2%, Recreational Vehicle products decreased \$2,519,000 or 4.2%, while Commercial Seating increased \$1,943,000 or 12.0%. Cost of goods sold decreased by \$2,780,000 for the year as compared to 1995 due to the volume decrease. Selling, general and administrative expenses were 18.1% in fiscal 1996 compared to 17.6% in fiscal 1995. This increase reflects approximately \$400,000 of additional costs associated with enhancements to our Comfort Seating Gallery Program and an increase of approximately \$675,000 in bad debt provision. The above factors resulted in fiscal year 1996 net earnings of \$4,502,000 or \$.63 per share compared to \$5,211,000 or \$.73 per share in fiscal 1995, a net decrease of \$709,000 or \$.10 per share.

FISCAL 1995 COMPARED TO FISCAL 1994

Sales for 1995 increased by \$13,044,000 or 6.7% compared to 1994. Home Furnishings sales volume increased \$8,359,000 or 6.8%, Contract Furniture increased \$2,507,000 or 18.2%, and Recreational Vehicle products increased

\$2,178,000 or 3.7%. Cost of goods increased \$13,164,000 for the year as compared to 1994. Approximately \$3,000,000 of this increase relates to lower margins, increased material costs, and inefficiencies due to decreased volume in the fourth quarter of the year, with the remainder due to overall increased volume for the year. Selling, general and administrative expenses were 17.6% in fiscal 1995 compared to 17.9% in 1994. The Company continues to control fixed costs while increasing volume. Interest expense increased by \$102,000 due to financing the Starkville, Mississippi, expansion. In fiscal 1994 the Company made an accounting principle change in adopting Statement of Financial Accounting Standards (SFAS) No. 115 which resulted in net cumulative income of \$320,000 or \$.04 per share. The above factors resulted in fiscal year 1995 net earnings of \$5,211,000 or \$ .73 per share compared to \$6,787,000 or \$ .95 per share in fiscal 1994, a net decrease of \$1,576,000 or \$.22 per share.

PLANT LOCATIONS

\* Flexsteel Industries, Inc.  
DUBUQUE, IOWA 52001  
(319) 556-7730  
P.M. Crahan, General Manager

Flexsteel Industries, Inc.  
DUBLIN, GEORGIA 31040  
(912) 272-6911  
M. C. Dixon, General Manager

Flexsteel Industries, Inc.  
LANCASTER, PENNSYLVANIA 17604  
(717) 392-4161  
T.P. Fecteau, General Manager

Flexsteel Industries, Inc.  
RIVERSIDE, CALIFORNIA 92504  
(909) 354-2440  
T.D. Burkart, General Manager

Flexsteel Industries, Inc.  
NEW PARIS, INDIANA 46553  
(219) 831-4050  
G.H. Siemer, General Manager

Wood Products Division  
HARRISON, ARKANSAS 72601  
(501) 743-1101  
M.J. Feldman, General Manager

Metal Division  
DUBUQUE, IOWA 52001  
(319) 556-7730  
J.E. Gilbertson, General Manager

Commercial Seating Division  
STARKVILLE, MISSISSIPPI 39760  
(601) 323-5481  
S.P. Salmon, General Manager

DYGERT SEATING DIVISION  
Elkhart, Indiana 46515  
(219) 262-4675  
D.L. Dygert, General Manager

DYGERT SEATING DIVISION  
Watkinsville, Georgia 30677  
(706) 769-8731  
J.B. Wilkes, Plant Manager

Vancouver Distribution Center  
VANCOUVER, WASHINGTON 98668  
(206) 696-9955  
R. Heying, Supervisor

\* EXECUTIVE OFFICES

PERMANENT SHOWROOMS

Dubuque, Iowa  
High Point, North Carolina  
San Francisco, California

DIRECTORS AND OFFICERS

Frank H. Bertsch  
CHAIRMAN OF EXECUTIVE COMMITTEE  
DIRECTOR

Jack B. Crahan  
CHAIRMAN OF THE BOARD OF DIRECTORS

K. Bruce Lauritsen  
PRESIDENT  
CHIEF EXECUTIVE OFFICER  
DIRECTOR

Edward J. Monaghan  
EXECUTIVE VICE PRESIDENT  
CHIEF OPERATING OFFICER  
DIRECTOR

James R. Richardson  
SENIOR VICE PRESIDENT, MARKETING

DIRECTOR

L. Bruce Boylen  
RETIRED VICE PRESIDENT  
FLEETWOOD ENTERPRISES, INC.  
DIRECTOR

John R. Easter  
RETIRED VICE PRESIDENT  
SEARS, ROEBUCK & COMPANY  
DIRECTOR

Thomas E. Holloran  
PROFESSOR, GRADUATE SCHOOL OF  
BUSINESS, UNIVERSITY OF ST. THOMAS  
ST. PAUL, MINNESOTA  
DIRECTOR

James G. Peterson  
CONSULTANT  
JAMES G. PETERSON ASSOCIATES  
BUSINESS CONSULTANT  
AND INVESTMENT ADVISOR  
DIRECTOR

Art D. Richardson  
RETIRED SENIOR VICE PRESIDENT  
FLEXSTEEL INDUSTRIES, INC.  
DIRECTOR

Jeffrey T. Bertsch  
VICE PRESIDENT

Carolyn T. B. Bleile  
VICE PRESIDENT

Thomas D. Burkart  
SENIOR VICE PRESIDENT, VEHICLE SEATING

Kevin F. Crahan  
VICE PRESIDENT

Patrick M. Crahan  
VICE PRESIDENT

Keith R. Feuerhaken  
VICE PRESIDENT

James E. Gilbertson  
VICE PRESIDENT

James M. Higgins  
VICE PRESIDENT, COMMERCIAL SEATING

Ronald J. Klosterman  
VICE PRESIDENT, FINANCE  
CHIEF FINANCIAL OFFICER  
SECRETARY

Michael A. Santillo  
VICE PRESIDENT

EXECUTIVE COMMITTEE  
Frank H. Bertsch, Chairman  
Jack B. Crahan  
K. Bruce Lauritsen  
Edward J. Monaghan  
James R. Richardson

AUDIT & ETHICS  
COMMITTEE  
Thomas E. Holloran, Chairman  
John R. Easter  
James G. Peterson  
Art D. Richardson

NOMINATING &  
COMPENSATION  
COMMITTEE  
L. Bruce Boylen, Chairman  
John R. Easter  
Thomas E. Holloran  
James G. Peterson

MARKETING COMMITTEE  
John R. Easter, Chairman  
Frank H. Bertsch  
L. Bruce Boylen

James G. Peterson  
Art D. Richardson

TRANSFER AGENT AND  
REGISTRAR  
Norwest Capital Resources  
P.O. Box 738  
South St. Paul,  
Minnesota 55075-0738

GENERAL COUNSEL  
Irving C. MacDonald  
Minneapolis, Minnesota  
O'Connor and Thomas, P.C.  
Dubuque, Iowa

NATIONAL OVER  
THE COUNTER  
NASDAQ Symbol - FLXS

ANNUAL MEETING  
Tuesday,  
December 9, 1997, 3:30 p.m.  
The Marquette  
710 Marquette Avenue, 3rd floor  
Minneapolis, Minnesota 55402

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 handicap 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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VISIT US ON THE INTERNET  
<http://flexsteel.com>  
- - - - -

[LOGO] FLEXSTEEL(R)  
AMERICA'S SEATING SPECIALIST

(C) 1997 FLEXSTEEL INDUSTRIES, INC.

[PHOTO]

Luxury afloat: a handsome leather reclining sofa, as well as the dining table and chairs, in the spacious salon of this Carver Yacht are by Flexsteel. The free-standing furniture in all seventeen Carver models is by Flexsteel.

[PHOTO]

"There's a world of difference," says Carver Boats of their luxurious and spacious motor yachts and cruisers. Carver has a long history of dedication to quality, and Flexsteel furniture is ideal for their interiors.

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[LOGO] FLEXSTEEL(R)  
AMERICA'S SEATING SPECIALIST  
P.O. BOX 877 \* DUBUQUE IA 52004-0877

## INDEPENDENT AUDITORS' REPORT

Flexsteel Industries, Inc.:

We have audited the financial statements of Flexsteel Industries, Inc. (the Company) as of June 30, 1997 and 1996 and for each of the three years in the period ended June 30, 1997, and have issued our report thereon dated August 8, 1997, such financial statements and report are included in your 1997 Annual Report to Stockholders and are incorporated herein by reference. Our audits also included the financial statement schedule of Flexsteel Industries, Inc., listed in Item 14. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement schedule based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP

Minneapolis, Minnesota  
August 8, 1997

CONSENT OF INDEPENDENT AUDITORS

Flexsteel Industries, Inc.:

We consent to the incorporation by reference in Registration Statement No. 33-1836 on Form S-8 as amended by Post-Effective Amendment No. 1 for the Flexsteel Salaried Employees' Savings Plan 401(k) and in Registration Statement No. 2-86782 on Form S-8 as amended by Post-Effective Amendment No. 3 for the Flexsteel 1983 Stock Option Plan and in Registration Statement No. 33-26267 on Form S-8 for the Flexsteel 1989 Stock Option Plan and in Registration Statement No. 333-1413 on Form S-8 for the Flexsteel 1995 Stock Option Plan of our reports dated August 8, 1997 appearing in and incorporated by reference in the Annual Report on Form 10-K of Flexsteel Industries, Inc. for the year ended June 30, 1997.

DELOITTE & TOUCHE LLP

Minneapolis, Minnesota  
September 24, 1997

YEAR  
JUN-30-1997  
JUN-30-1997  
4,445,327  
5,041,154  
28,147,941  
2,799,000  
26,985,554  
65,247,093  
73,176,562  
46,962,157  
99,172,677  
20,890,230  
0  
0  
0  
6,927,310  
68,310,719  
99,172,677  
219,426,736  
221,259,653  
173,088,406  
211,441,071  
38,352,665  
0  
345,148  
9,473,434  
3,425,000  
6,048,434  
0  
0  
0  
6,048,434  
0.86  
0