SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE TO

(Rule 14d-100)
Tender Offer Statement Under Section 14(d)(1)
or Section 13(e)(1) of the Securities Exchange Act of 1934

DMI FURNITURE, INC.

(Name of Subject Company (Issuer))

CHURCHILL ACQUISITION CORP.

a wholly owned subsidiary of

FLEXSTEEL INDUSTRIES, INC.

(Names of Filing Persons (Offerors))

COMMON STOCK, PAR VALUE $0.10 PER SHARE
(Title of Class of Securities)

233230 10-1
(CUSIP Number of Class of Securities)

Ronald J. Klosterman
Flexsteel Industries, Inc.
P.O. Box 87
Dubuque, Iowa 52004-0877
Telephone: (563) 556-7730
(Name, address and telephone number of
person authorized to receive notices
and communications on behalf of filing persons)

With a copy to:
Charles W. Mulaney, Jr., Esq.
Skadden, Arps, Slate, Meagher & Flom (Illinois)
333 West Wacker Drive
Chicago, Illinois 60606
Telephone: (312) 407-0700

CALCULATION OF FILING FEE

Transaction Valuation*	Amount of Filing Fee**
$16,862,627	$1,365

* Estimated for purposes of calculating the filing fee only. The transaction valuation assumes the purchase of 4,298,786 outstanding shares of common stock of DMI Furniture, Inc. at a purchase price of $3.30 per share. The transaction value also includes the offer price of $3.30 per share multiplied by 811,101, the estimated number of outstanding options to purchase shares of common stock of DMI Furniture, Inc.

** The amount of the filing fee, calculated in accordance with Rule 0-11 of the Securities and Exchange Act of 1934, as amended, and Fee Advisory #11 for Fiscal Year 2003 issued by the Securities and Exchange Commission on February 21, 2003, equals 0.008090% of the transaction valuation.

☐ Check the box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number or the Form or Schedule and the date of its filing.

Amount Previously Paid: _____ Filing party: _____

Form or Registration No.: _____ Date Filed: _____

Check the box if the filing relates solely to preliminary communications made before the commencement of a tender offer.
Check the appropriate boxes below to designate any transactions to which the statement relates:

☒ third-party tender offer subject to Rule 14d-1.
☐ issuer tender offer subject to Rule 13e-4.
☐ going-private transaction subject to Rule 13e-3.
☐ amendment to Schedule 13D under Rule 13d-2.
Check the following box if the filing is a final amendment reporting the results of the tender offer: ☐

This Tender Offer Statement on Schedule TO (this "Statement") relates to the offer by Churchill Acquisition Corp. (the "Purchaser"), a Delaware corporation and a wholly owned subsidiary of Flexsteel Industries, Inc., a Minnesota corporation ("Flexsteel"), to purchase all outstanding shares of common stock, par value $0.10 per share (the "Shares"), of DMI Furniture, Inc., a Delaware corporation (the "Company"), for $3.30 per Share, net to the seller in cash. The terms and conditions of the offer are described in the Offer to Purchaser, dated August 20, 2003 (the "Offer to Purchase"), a copy of which is attached hereto as Exhibit (a)(1), and the related Letter of Transmittal and the instructions thereto, a copy of which is attached hereto as Exhibit (a)(2) (which, as they may be amended or supplemented from time to time, together constitute the "Offer").

Pursuant to General Instruction F to Schedule TO, the information contained in the Offer to Purchase, including all schedules thereto, is hereby expressly incorporated herein by reference in response to items 1 through 11 of this Statement and is supplemented by the information specifically provided for herein.

ITEM 1. Summary Term Sheet

The information set forth in the section of the Offer to Purchase entitled "Summary Term Sheet" is incorporated herein by reference.

ITEM 2. Subject Company Information.

(a) The name of the subject company is DMI Furniture, Inc., a Delaware corporation. Its principal executive office is located at One Oxmoor Place, 101 Bullitt Lane, Louisville, Kentucky 40222. The telephone number of the Company is (502) 426-4351.

(b) This Statement relates to the Offer by Purchaser to purchase all outstanding Shares for $3.30 per Share, net to the seller in cash, upon the terms and subject to the conditions set forth in the Offer to Purchase and in the related Letter of Transmittal. The information set forth in the introduction to the Offer to Purchase (the "Introduction") is incorporated herein by reference.

(c) The information concerning the principal market in which the Shares are traded and certain high and low sales prices for the Shares in such principal market is set forth in the section of the Offer to Purchase entitled "Price Range of Shares; Dividends" and is incorporated herein by reference.

ITEM 3. Identity and Background of the Filing Person.

(a), (b), (c) The information set forth in the section of the Offer to Purchase entitled "Certain Information Concerning Flexsteel and the Purchaser" and in Schedule I to the Offer to Purchase is incorporated herein by reference.

ITEM 4. Terms of the Transaction.

(a)(1)(i)-(viii), (x), (xii) The information set forth in the Introduction and in the sections of the Offer to Purchase entitled "Terms of the Offer,""Acceptance for Payment and Payment for Shares," "Procedures for Accepting the Offer and Tendering Shares," "Withdrawal Rights," "Certain United States Federal Income Tax Consequences," and "Certain Effects of the Offer" is incorporated herein by reference.

(a)(1) (ix), (xi) Not applicable.

(a)(2) (i)-(v), (vii) The information set forth in the Introduction and in the sections of the Offer to Purchase entitled "Certain United States Federal Income Tax Consequences," "Background of the Offer; Past Contacts or Negotiations with the Company," "The Merger Agreement and Related Agreements," and "Purpose of the Offer; Plans for the Company" is incorporated herein by reference.

(a)(2) (vi) Not applicable.

ITEM 5. Past Contacts, Transactions, Negotiations and Agreements.

(a), (b) The information set forth in the sections of the Offer to Purchase entitled "Certain Information Concerning Flexsteel and

the Purchaser,"“Background of the Offer; Past Contacts or Negotiations with the Company,” “The Merger Agreement and Related Agreements,” and “Purpose of the Offer; Plans for the Company” is incorporated herein by reference.

Item 6. Purpose of the Tender Offer and Plans or Proposals.

(a), (c)(1), (c)(3-7) The information set forth in the Introduction and in the sections of the Offer to Purchase entitled “Price Range of Shares; Dividends,” “Background of the Offer; Past Contacts or Negotiations with the Company,” “The Merger Agreement and Related Agreements,” “Purpose of the Offer; Plans for the Company,” and “Certain Effects of the Offer” is incorporated herein by reference.

(c)(2) None.

Item 7. Source and Amount of Funds or Other Consideration.

(a) The information set forth in the section of the Offer to Purchase entitled “Source and Amount of Funds” is incorporated herein by reference.

(b) Not applicable.

(d) Not applicable.

Item 8. Interest in Securities of the Subject Company.

The information set forth in the Introduction and in the sections of the Offer to Purchase entitled “Certain Information Concerning Flexsteel and the Purchaser” and “The Merger Agreement and Related Agreements” and in Schedule I to the Offer to Purchase is incorporated herein by reference.

Item 9. Persons/Assets, Retained, Employed, Compensated or Used.

The information set forth in the Introduction and in the section of the Offer to Purchase entitled “Fees and Expenses” is incorporated herein by reference.

Item 10. Financial Statements.

Not applicable.

Item 11. Additional Information.

(a)(1) The information set forth in the sections of the Offer to Purchase entitled “Certain Information Concerning Flexsteel and the Purchaser” and “The Merger Agreement and Related Agreements” is incorporated herein by reference.

(a)(2) and (a)(3) The information set forth in the sections of the Offer to Purchase entitled “Terms of the Offer,” “The Merger Agreement and Related Agreements,” “Certain Conditions of the Offer,” and “Certain Legal Matters; Regulatory Approvals” is incorporated herein by reference.

(a)(4) The information set forth in the section of the Offer to Purchase entitled “Certain Effects of the Offer” is incorporated herein by reference.

(a)(5) None.

(b) The information set forth in the Offer to Purchase is incorporated herein by reference.

Item 12. Exhibits.

(a)(1) Offer to Purchase dated August 20, 2003.

(a)(2) Letter of Transmittal.

(a)(3) Notice of Guaranteed Delivery.

(a)(4) Letter to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.

(a)(5) Letter to Clients for use by Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.

(a)(6) Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9.

(a)(7) Press Release issued by Flexsteel on August 13, 2003, incorporated herein by reference to the pre-commencement Schedule TO filed by Flexsteel on August 13, 2003.

(a)(8) Press Release issued by Flexsteel on August 20, 2003.

(a)(9) Summary Advertisement as published in The Wall Street Journal on August 20, 2003.

(b) Not applicable.

(d)(1) Agreement and Plan of Merger, dated as of August 12, 2003, by and among Flexsteel, the Purchaser and DMI.

(d)(2) Form of Tender and Voting Agreement, by and among Flexsteel, the Purchaser and certain stockholders of the Company.

(d)(3) Confidentiality Agreement, dated as of December 6, 2003, between Flexsteel and DMI.

(d)(4) Mutual Confidentiality Agreement, dated as of May 14, 2003, between Flexsteel and DMI.

(g) Not applicable.

(h) Not applicable.

Item 13. Information Required by Schedule 13E-3.

Not applicable.

SIGNATURE

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Churchill Acquisition Corp.

By: /S/ Ronald J. Klosterman
Name: Ronald J. Klosterman
Title: Treasurer & Secretary

Flexsteel Industries, Inc.

By: /S/ Ronald J. Klosterman
Name: Ronald J. Klosterman
Title: Vice President Finance, CFO & Secretary

Dated: August 20, 2003

EXHIBIT INDEX

Exhibit No.	Exhibit Name
(a)(1)	Offer to Purchase dated August 20, 2003.
(a)(2)	Letter of Transmittal.
(a)(3)	Notice of Guaranteed Delivery.
(a)(4)	Letter to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.
(a)(5)	Letter to Clients for use by Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.
(a)(6)	Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9.
(a)(7)	Press Release issued by Flexsteel on August 13, 2003, incorporated herein the pre-commencement Schedule TO filed by Flexsteel on August 13, 2003.
(a)(8)	Press Release issued by Flexsteel on August 20, 2003.
(a)(9)	Summary Advertisement as published in The Wall Street Journal on August 20, 2003.
(d)(1)	Agreement and Plan of Merger, dated as of August 12, 2003, by and among Flexsteel, the Purchaser and DMI.
(d)(2)	Form of Tender and Voting Agreement, by and among Flexsteel, the Purchaser and certain stockholders of the Company.
(d)(3)	Confidentiality Agreement, dated as of December 6, 2003, between Flexsteel and DMI.
(d)(4)	Mutual Confidentiality Agreement, dated as of May 14, 2003, between Flexsteel and DMI.

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Offer To Purchase For Cash

All Outstanding Shares of Common Stock

of

DMI Furniture, Inc.

at

$3.30 Net Per Share

by

Churchill Acquisition Corp.

a wholly owned subsidiary of

Flexsteel Industries, Inc.

THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON WEDNESDAY, SEPTEMBER 17, 2003 UNLESS THE OFFER IS EXTENDED.

THE OFFER IS BEING MADE PURSUANT TO AN AGREEMENT AND PLAN OF MERGER, DATED AS OF AUGUST 12, 2003 (THE "MERGER AGREEMENT"), AMONG FLEXSTEEL INDUSTRIES, INC. ("FLEXSTEEL"), CHURCHILL ACQUISITION CORP. (THE "PURCHASER") AND DMI FURNITURE, INC. (THE "COMPANY"). THE OFFER IS CONDITIONED UPON, AMONG OTHER THINGS, THERE BEING VALIDLY TENDERED AND NOT WITHDRAWN PRIOR TO THE EXPIRATION OF THE OFFER A NUMBER OF SHARES OF COMMON STOCK, PAR VALUE $0.10 PER SHARE (THE "SHARES"), OF THE COMPANY THAT REPRESENTS AT LEAST A MAJORITY OF THE THEN OUTSTANDING SHARES ON A FULLY-DILUTED BASIS. THE OFFER IS ALSO SUBJECT TO OTHER CONDITIONS. SEE SECTION 14—"CERTAIN CONDITIONS OF THE OFFER."

ACTING UPON THE UNANIMOUS RECOMMENDATION OF THE SPECIAL COMMITTEE (AS DEFINED HEREIN), THE BOARD OF DIRECTORS OF THE COMPANY UNANIMOUSLY (I) DETERMINED THAT THE TERMS OF THE OFFER AND THE MERGER DESCRIBED HEREIN ARE FAIR TO AND IN THE BEST INTERESTS OF THE STOCKHOLDERS OF THE COMPANY, (II) APPROVED THE MERGER AGREEMENT AND THE TRANSACTIONS CONTEMPLATED THEREBY, INCLUDING THE OFFER AND THE MERGER, AND APPROVED THE TENDER AND VOTING AGREEMENTS (AS DEFINED HEREIN) AND THE TRANSACTIONS CONTEMPLATED THEREBY AND (III) RECOMMENDS THAT THE COMPANY'S STOCKHOLDERS ACCEPT THE OFFER AND TENDER THEIR SHARES PURSUANT TO THE OFFER.

IMPORTANT

Any stockholder of the Company wishing to tender Shares in the Offer must (i) complete and sign the Letter of Transmittal (or a facsimile thereof) in accordance with the instructions in the Letter of Transmittal and mail or deliver the Letter of Transmittal and all other required documents to the Depositary (as defined herein) together with certificates representing the Shares tendered or follow the procedure for book-entry transfer set forth in Section 3—"Procedures for Accepting the Offer and Tendering Shares" or (ii) request such stockholder's broker, dealer, commercial bank, trust company or other nominee to effect the transaction for the stockholder. A stockholder whose Shares are registered in the name of a broker, dealer, commercial bank, trust company or other nominee must contact such person if such stockholder wishes to tender such Shares.

Any stockholder of the Company who wishes to tender Shares and cannot deliver certificates representing such Shares and all other required documents to the Depositary on or prior to the Expiration Date (as defined herein) or who cannot comply with the procedures for book-entry transfer on a timely basis may tender such Shares pursuant to the guaranteed delivery procedure set forth in Section 3—"Procedures for Accepting the Offer and Tendering Shares."

Questions and requests for assistance may be directed to the Information Agent at its address and telephone number set forth on the back cover of this Offer to Purchase. Additional copies of this Offer to Purchase, the Letter of Transmittal, the Notice of Guaranteed Delivery and other related materials may be obtained from the Information Agent. Stockholders may also contact their broker, dealer, commercial bank, trust company or other nominee for copies of these documents.

August 20, 2003

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SUMMARY TERM SHEET

Churchill Acquisition Corp. is offering to purchase all of the outstanding shares of common stock of DMI Furniture, Inc. for $3.30 per share in cash. The following are some of the questions you, as a stockholder of DMI, may have and answers to those questions. We urge you to read carefully the remainder of this Offer to Purchase and the Letter of Transmittal because the information in this summary term sheet is not complete. Additional important information is contained in the remainder of this Offer to Purchase and the Letter of Transmittal.

Who is offering to buy my securities?

Our name is Churchill Acquisition Corp. We are a Delaware corporation formed for the purpose of making a tender offer for all of the common stock of DMI. We are a wholly owned subsidiary of Flexsteel Industries, Inc., a Minnesota corporation. See the "Introduction" to this Offer to Purchase and Section 8—"Certain Information Concerning Flexsteel and the Purchaser."

What are the classes and amounts of securities sought in the offer?

We are seeking to purchase all of the outstanding shares of common stock of DMI. See the "Introduction" to this Offer to Purchase and Section 1—"Terms of the Offer."

How much are you offering to pay? What is the form of payment? Will I have to pay any fees or commissions?

We are offering to pay $3.30 per share, net to you, in cash. If you are the record owner of your shares and you tender your shares to us in the offer, you will not have to pay brokerage fees or similar expenses. If you own your shares through a broker or other nominee, and your broker tenders your shares on your behalf, your broker or nominee may charge you a fee for doing so. You should consult your broker or nominee to determine whether any charges will apply. See the "Introduction" to this Offer to Purchase. Payments made to you in connection with the offer or the merger may also be subject to "backup withholding" at a rate of 28%, if certain requirements are not met. See Section 5—"Certain United States Federal Income Tax Consequences."

Do you have the financial resources to make payment?

Flexsteel, our parent company, will provide us with approximately $17 million to purchase shares in the offer and to provide funding for the merger, which is expected to follow the successful completion of the offer in accordance with the terms and conditions of the merger agreement. Flexsteel will use generally available corporate funds for this purpose. The offer is not conditioned upon any financing arrangements. See Section 9—"Source and Amount of Funds."

Is your financial condition relevant to my decision to tender in the offer?

We do not think our financial condition is relevant to your decision whether to tender shares and accept the offer because:

- the offer is being made for all outstanding shares solely for cash,
- the offer is not subject to any financing condition, and
- if we consummate the offer, we will acquire all remaining shares for the same cash price in the merger.

See Section 9—"Source and Amount of Funds."

How long do I have to decide whether to tender in the offer?

You will have at least until 12:00 midnight, New York City time, on Wednesday, September 17, 2003, to tender your shares in the offer. Further, if you cannot deliver everything that is required in order to make a valid tender by that time, you may be able to use a guaranteed delivery procedure, which is described later in this Offer to Purchase. See Sections 1—"Terms of the Offer" and 3—"Procedures for Accepting the Offer and Tendering Shares."

Can the offer be extended and under what circumstances?

We have agreed in the merger agreement that:

- Without the consent of DMI, we may extend the offer beyond the scheduled expiration date if at that date any of the conditions to our obligation to accept for payment and to pay for the shares are not satisfied or, to the extent permitted by the merger agreement, waived.
- Without the consent of DMI, we may generally extend the offer for any period required by any rule, regulation, interpretation or position of the Securities and Exchange Commission or its staff applicable to the offer.
- Without the consent of DMI, we may extend the offer for an additional period of not more than 10 business days beyond the scheduled expiration date if at that date at least 80% but less than 90% of the outstanding shares on a fully-diluted basis have been validly tendered and not withdrawn.
- If, on the expiration date of the offer, (1) there is any pending proceeding by a governmental entity against Flexsteel, the Purchaser or DMI or any statute, law or regulation is enacted or promulgated, which has certain specified adverse effects on Flexsteel, the Purchaser, DMI or their ability to consummate the transactions contemplated by the merger agreement or (2) there is any banking moratorium, limitation on the extension of credit or any change which materially and adversely affects the ability of financial institutions in the United States to extend credit to credit worthy borrowers, subject to our right to terminate the merger agreement, we have agreed to extend the offer unless the conditions to the offer related to these matters could not reasonably be expected to be satisfied by November 30, 2003.
- If, on the expiration date of the offer, DMI is in unintentional breach of its representations and warranties contained in the merger agreement or is in non-willful breach of its covenants and agreements contained in the merger agreement, subject to our right to terminate the merger agreement, we have agreed to extend the offer to a date that is not less than 30 days from the date we notified DMI of the breach.
- Without the consent of DMI, we may elect to provide a "subsequent offering period" for the offer. A subsequent offering period, if one is included, will be an additional period of not less than three or more than twenty business days beginning after we have purchased shares tendered during the offer, during which stockholders may tender, but not withdraw, their shares and receive the offer consideration.

See Section 1—"Terms of the Offer" of this Offer to Purchase for more details on our ability to extend the offer.

How will I be notified if the offer is extended?

If we extend the offer, we will inform American Stock Transfer and Trust Company (the depositary for the offer) of that fact and will make a public announcement of the extension not later than 9:00 a.m., New York City time, on the next business day after the day on which the offer was scheduled to expire. See Section 1—"Terms of the Offer."

What are the most significant conditions to the offer?

- We are not obligated to purchase any shares that are validly tendered unless the number of shares validly tendered and not withdrawn before the expiration date of the offer represents at least a majority of the then outstanding shares on a fully-diluted basis. We call this condition the "minimum condition."
- We are not obligated to purchase shares that are validly tendered if, among other things, there is a material adverse change in DMI or its business.
- We are not obligated to purchase shares that are validly tendered if, among other things, the board of directors of DMI has withdrawn its recommendation of the offer and the merger.

The offer is also subject to a number of other conditions. We can waive some of the conditions to the offer without DMI's consent. We cannot, however, waive the minimum condition. See Section 14—"Certain Conditions of the Offer."

How do I tender my shares?

To tender shares, you must deliver the certificates representing your shares, together with a completed letter of transmittal and any other documents required by the letter of transmittal, to American Stock Transfer and Trust Company, the depositary for the offer, not later than the time the tender offer expires. If your shares are held in street name, the shares can be tendered by your nominee through The Depository Trust Company. If you are unable to deliver any required document or instrument to the depositary by the expiration of the tender offer, you may gain some extra time by having a broker, a bank or other fiduciary that is an eligible institution guarantee that the missing items will be received by the depositary within three Nasdaq Stock Market trading days. For the tender to be valid, however, the depositary must receive the missing items within that three trading day period. See Section 3—"Procedures for Accepting the Offer and Tendering Shares."

Until what time may I withdraw previously tendered shares?

You may withdraw shares at any time until the offer has expired and, if we have not accepted your shares for payment by November 14, 2003, you may withdraw them at any time after that date until we accept shares for payment. This right to withdraw will not apply to any subsequent offering period, if one is provided. See Section 4—"Withdrawal Rights."

How do I withdraw previously tendered shares?

To withdraw shares, you must deliver a written notice of withdrawal, or a facsimile of one, with the required information to the depositary while you still have the right to withdraw shares. See Section 4—"Withdrawal Rights."

What does the DMI Board of Directors think of the offer?

We are making the offer pursuant to the merger agreement, which has been approved by the board of directors of DMI. Acting upon the unanimous recommendation of a special committee, comprised solely of independent directors, the board of directors of DMI unanimously (1) determined that the terms of the offer and the merger are fair to and in the best interests of the stockholders of DMI, (2) approved the merger agreement and the transactions contemplated thereby, including the offer and the merger, and approved the tender and voting agreements (discussed below) and the transactions contemplated thereby and (3) recommends that DMI's stockholders accept the offer and tender their shares pursuant to the offer. See the "Introduction" to this Offer to Purchase.

Have any stockholders of DMI agreed to tender their shares?

Yes. Stockholders owning approximately 8% of the outstanding shares (on a fully-diluted basis) of DMI have entered into tender and voting agreements with Flexsteel and Purchaser. Pursuant to the tender and voting agreements, these stockholders have agreed to tender their shares in the offer. See the "Introduction" to this Offer to Purchase and Section 11—"The Merger Agreement and Related Agreements."

If a majority of the shares are tendered and accepted for payment, will DMI continue as a public company?

No. Following the purchase of shares in the offer we expect to consummate the merger. If the merger takes place, DMI no longer will be publicly owned. Even if for some reason the merger does not take place, if we purchase all of the tendered shares, there may be so few remaining stockholders and publicly held shares that DMI common stock will no longer be eligible to be traded through The Nasdaq SmallCap Market or other securities exchanges, there may not be a public trading market for DMI common stock, and DMI may no longer be required to make filings with the Securities and Exchange Commission or otherwise comply with the SEC rules relating to publicly held companies. See Section 13—"Certain Effects of the Offer."

Will the tender offer be followed by a merger if all of the DMI shares are not tendered in the offer?

Yes. If we accept for payment and pay for at least a majority of the shares of DMI on a fully-diluted basis, Churchill Acquisition Corp. will be merged with and into DMI. If that merger takes place, Flexsteel will own all of the shares of DMI and all remaining stockholders of DMI (other than Flexsteel and stockholders properly exercising dissenters' rights) will receive $3.30 per share in cash (or any higher price per share that is paid in the offer). See the "Introduction" to this Offer to Purchase.

If I decide not to tender, how will the offer affect my shares?

If you decide not to tender your shares and the merger described above occurs, you will receive the same amount of cash per share that you would have received had you tendered your shares in the offer, without any interest being paid on such amount, subject to any dissenters' rights properly exercised under Delaware law. Therefore, if the merger takes place and you do not exercise your right to dissent, the only difference to you between tendering your shares and not tendering your shares is that you will be paid earlier if you tender your shares. If you decide not to tender your shares in the offer and we purchase the tendered shares, but the merger does not occur, there may be so few remaining stockholders and publicly held shares that DMI common stock will no longer be eligible to be traded through The Nasdaq SmallCap Market or other securities exchanges and there may not be a public trading market for DMI common stock. Also, as described above, DMI may no longer be required to make filings with the Securities and Exchange Commission or otherwise comply with the SEC rules relating to publicly held companies. See the "Introduction" and Section 13—"Certain Effects of the Offer" of this Offer to Purchase.

What is the market value of my shares as of a recent date?

On August 11, 2003, the last trading day before we announced the acquisition, the last sale price of DMI common stock reported on The Nasdaq SmallCap Market was $2.38 per share. On August 19, 2003, the last trading day before we commenced the tender offer, the last sale price of DMI common stock reported on The Nasdaq SmallCap Market was $3.28. We encourage you to obtain a recent quotation for shares of DMI common stock in deciding whether to tender your shares. See Section 6—"Price Range of Shares."

Generally, what are the United States federal income tax consequences of tendering shares?

The receipt of cash for shares pursuant to the offer or the merger will be a taxable transaction for United States federal income tax purposes and possibly for state, local and foreign income tax purposes as well. In

general, if you sell your shares pursuant to the offer, or you receive cash in exchange for your shares pursuant to the merger, you will recognize gain or loss for United States federal income tax purposes in an amount equal to the difference, if any, between the amount of cash received and your adjusted tax basis in the shares sold pursuant to the offer or exchanged for cash pursuant to the merger. If the shares exchanged constitute capital assets in your hands, such gain or loss will be capital gain or loss. In general, capital gains recognized by an individual will be subject to a maximum United States federal income tax rate of 15 percent, if the shares were held for more than one year, and at ordinary income tax rates, if held for one year or less. See Section 5—"Certain United States Federal Income Tax Consequences."

Who should I talk to if I have questions about the tender offer?

You may call Innisfree M&A Incorporated at (888) 750-5834 (toll free). Innisfree M&A Incorporated is acting as the information agent for our tender offer. See the back cover of this Offer to Purchase.

To the Holders of Shares of
Common Stock of DMI Furniture, Inc.

INTRODUCTION

Churchill Acquisition Corp. (the "Purchaser"), a Delaware corporation and a wholly owned subsidiary of Flexsteel Industries, Inc., a Minnesota corporation ("Flexsteel"), hereby offers to purchase all outstanding shares of common stock, par value $0.10 per share (the "Shares"), of DMI Furniture, Inc., a Delaware corporation (the "Company"), at a price of $3.30 per Share, net to the seller in cash (the "Offer Price"), upon the terms and subject to the conditions set forth in this Offer to Purchase and in the related Letter of Transmittal (which, together with any amendments or supplements hereto or thereto, collectively constitute the "Offer").

The Offer is being made pursuant to an Agreement and Plan of Merger dated as of August 12, 2003 (the "Merger Agreement"), among Flexsteel, the Purchaser and the Company. The Merger Agreement provides that the Purchaser will be merged with and into the Company (the "Merger") with the Company continuing as the surviving corporation (the "Surviving Corporation"), wholly owned by Flexsteel. Pursuant to the Merger, at the effective time of the Merger (the "Effective Time"), each Share outstanding immediately prior to the Effective Time (other than Shares owned by the Company or Flexsteel or any of their respective subsidiaries, all of which will be cancelled, and other than Shares that are held by stockholders, if any, who properly exercise their dissenters' rights under the Delaware General Corporation Law (the "DGCL")), will be converted into the right to receive $3.30 or any greater per Share price paid in the Offer in cash, without interest (the "Merger Consideration").

In connection with the Merger Agreement, certain stockholders of the Company, who own 409,193 Shares in the aggregate (approximately 8% of the outstanding Shares on a fully-diluted basis), entered into Tender and Voting Agreements (the "Tender and Voting Agreements"), dated as of August 12, 2003, with Parent and the Purchaser. Pursuant to the Tender and Voting Agreements, such stockholders have agreed, among other things, to tender the Shares held by them in the Offer and to grant Parent a proxy with respect to the voting of such Shares in favor of the Merger upon the terms and subject to the conditions set forth therein.

The Merger Agreement and the Tender and Voting Agreements are more fully described in Section 11—"The Merger Agreement and Related Agreements."

Tendering stockholders who are record owners of their Shares and tender directly to the Depositary (as defined below) will not be obligated to pay brokerage fees or commissions or, except as otherwise provided in Instruction 6 of the Letter of Transmittal, stock transfer taxes with respect to the purchase of Shares by the Purchaser pursuant to the Offer. Stockholders who hold their Shares through a broker or bank should consult such institution as to whether it charges any service fees. Flexsteel or the Purchaser will pay all charges and expenses of American Stock Transfer and Trust Company, as depositary (the "Depositary"), and Innisfree M&A Incorporated, as information agent (the "Information Agent"), incurred in connection with the Offer. See Section 16—"Fees and Expenses."

Acting upon the unanimous recommendation of a special committee, comprised solely of independent directors (the "Special Committee"), the Board of Directors of the Company (the "Company Board") has unanimously (i) determined that the terms of the Offer and the Merger are fair to and in the best interests of the stockholders of the Company, (ii) approved the Merger Agreement and the transactions contemplated thereby, including the Offer and the Merger, and approved the Tender and Voting Agreements and the transactions contemplated thereby, and (iii) recommends that the Company's stockholders accept the Offer and tender their shares pursuant to the Offer.

Mann, Armistead & Epperson, Ltd., the Special Committee's financial advisor, has delivered to the Special Committee its written opinion, dated August 12, 2003, to the effect that, as of such date and based on and subject

to the matters stated in such opinion, the consideration to be received by holders of Shares pursuant to the Offer and the Merger Agreement is fair from a financial point of view to such holders. The full text of Mann, Armistead & Epperson's written opinion, which describes the assumptions made, procedures followed, matters considered and limitations on the review undertaken, is included as an annex to the Company's Solicitation/Recommendation Statement on Schedule 14D-9 (the "Schedule 14D-9") under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which is being mailed to stockholders with this Offer to Purchase. Stockholders are urged to read the full text of such opinion carefully and in its entirety.

The Offer is conditioned upon, among other things, there being validly tendered in accordance with the terms of the Offer and not withdrawn prior to the expiration date of the Offer that number of Shares that represents at least a majority of then outstanding Shares on a fully-diluted basis (the "Minimum Condition"). The Offer is also subject to the satisfaction of certain other conditions. See Section 14—"Certain Conditions of the Offer."

For purposes of the Offer, "on a fully-diluted basis" means, as of any time, on a basis that includes the number of Shares that are actually issued and outstanding plus the maximum number of Shares that the Company may be required to issue pursuant to obligations under stock options, warrants and other rights or securities convertible into shares of Common Stock, whether or not currently exercisable. The Company has advised Flexsteel that, on August 12, 2003, 4,298,786 Shares were issued and outstanding and 811,101 Shares were subject to stock option grants. Neither Flexsteel nor the Purchaser beneficially owns any Shares. Accordingly, the Purchaser believes that the Minimum Condition would be satisfied if approximately 2,554,944 Shares were validly tendered and not withdrawn prior to the expiration of the Offer.

The Merger Agreement provides that, promptly upon the purchase of and payment for Shares pursuant to the Offer, Flexsteel will be entitled to elect or designate such number of directors, rounded up to the next whole number, on the Company Board that equals the product of (i) the total number of directors on the Company Board (giving effect to the directors designated by Flexsteel pursuant to the Merger Agreement) and (ii) the percentage that the number of Shares so purchased and paid for bears to the total number of Shares then outstanding (on a fully-diluted basis). The Company has agreed, upon request of the Purchaser, promptly to increase the size of the Company Board, secure the resignations of such number of directors, or any combination of the foregoing, as is necessary to enable Flexsteel designees to be so elected or designated to the Company Board and, in accordance with Section 14(f) of the Exchange Act and Rule 14f-1 promulgated thereunder in connection therewith, to cause Flexsteel designees to be so elected; provided, however, that until the Effective Time there shall be at least two independent directors on the Company Board. See Section 11—"The Merger Agreement and Related Agreements."

The Merger is subject to the satisfaction or waiver of certain conditions, including, if required, the approval and adoption of the Merger Agreement by the affirmative vote of the holders of a majority of the outstanding Shares. If the Minimum Condition is satisfied, the Purchaser would have sufficient voting power to approve the Merger without the affirmative vote of any other stockholder of the Company. The Company has agreed, if required, to cause a meeting of its stockholders to be held as promptly as practicable following consummation of the Offer for the purposes of considering and taking action upon the approval and adoption of the Merger Agreement. Flexsteel and the Purchaser have agreed to vote their Shares in favor of the approval and adoption of the Merger Agreement. See Section 11—"The Merger Agreement and Related Agreements."

This Offer to Purchase and the related Letter of Transmittal contain important information that should be read carefully before any decision is made with respect to the Offer.

THE TENDER OFFER

1. Terms of the Offer.

Upon the terms and subject to the conditions of the Offer (including, if the Offer is extended or amended, the terms and conditions of such extension or amendment), the Purchaser will accept for payment and pay for all

Shares validly tendered prior to the Expiration Date and not properly withdrawn as permitted under Section 4—"Withdrawal Rights." The term "Expiration Date" means 12:00 midnight, New York City time, on Wednesday, September 17, 2003, unless the Purchaser, in accordance with the Merger Agreement, extends the period during which the Offer is open, in which event the term "Expiration Date" means the latest time and date on which the Offer, as so extended (other than any extension with respect to the Subsequent Offering Period described below), expires.

The Offer is conditioned upon the satisfaction of the Minimum Condition and the other conditions set forth in Section 14—"Certain Conditions of the Offer." Subject to the provisions of the Merger Agreement, the Purchaser may waive any or all of the conditions to its obligation to purchase Shares pursuant to the Offer (other than the Minimum Condition). If by the initial Expiration Date or any subsequent Expiration Date any or all of the conditions to the Offer have not been satisfied or waived, subject to the provisions of the Merger Agreement, the Purchaser may elect to (i) terminate the Offer and return all tendered Shares to tendering stockholders, (ii) waive all of the unsatisfied conditions (other than the Minimum Condition) and, subject to any required extension, purchase all Shares validly tendered by the Expiration Date and not properly withdrawn, (iii) extend the Offer and, subject to the right of stockholders to withdraw Shares until the new Expiration Date, retain the Shares that have been tendered until the expiration of the Offer as extended or (iv) amend the offer.

The Purchaser has agreed that, without the prior written consent of the Company, it will not make any change to the Offer that (i) waives or modifies the Minimum Condition or (ii) makes any other changes to the Offer that are in any manner adverse to the holders of Shares.

Subject to the terms of the Merger Agreement, the Purchaser may, without the consent of the Company, (i) extend the Offer beyond the scheduled Expiration Date if any of the conditions to the Purchaser's obligation to accept for payment and to pay for the Shares are not satisfied or, to the extent permitted by the Merger Agreement, waived, (ii) extend the Offer for any period required by any rule, regulation, interpretation or position of the Securities and Exchange Commission (the "SEC") or its staff applicable to the Offer, (iii) extend the offer beyond the scheduled Expiration Date for an additional period of not more than 10 business days, if on the scheduled Expiration Date, there have been validly tendered and not withdrawn at least 80% of the outstanding Shares but less than 90% of the outstanding Shares on a fully-diluted basis or (iv) increase the Offer Price and extend the Offer to the extent required by law in connection with such increase.

The Merger Agreement provides that if, on the scheduled Expiration Date, (i) any of the events set forth in paragraphs (a), (b) or (c) of Section 14—"Certain Conditions of the Offer" shall have occurred and be continuing (and the condition with respect thereto shall not have been waived by Purchaser), subject to the Purchaser's right to terminate the Merger Agreement in accordance with its terms, the Purchaser must extend the Offer unless such conditions could not reasonably be expected to be satisfied by November 30, 2003 (the "Outside Date") and (ii) any of the events set forth in paragraph (f) of Section 14—"Certain Conditions of the Offer" (but only with respect to unintentional failures of such representations and warranties to be true and correct) or paragraph (g) of Section 14—"Certain Conditions of the Offer" (but only with respect to non-willful breaches of, or failures to comply with, covenants and agreements) shall have occurred and be continuing (and the condition with respect thereto shall not have been waived by the Purchaser), subject to the Purchaser's right to terminate the Merger Agreement in accordance with its terms, the Purchaser must extend the Offer to a date that is not less than 30 days from the date the Purchaser notified the Company of such event.

The Merger Agreement also provides that, if the Minimum Condition is satisfied and the Purchaser purchases Shares in the Offer, the Purchaser may, in its sole discretion, provide a subsequent offering period in accordance with Rule 14d-11 of the Exchange Act (a "Subsequent Offering Period"). A Subsequent Offering Period is an additional period of time from three to 20 business days in length, beginning after the Purchaser purchases Shares tendered in the Offer, during which time stockholders may tender, but not withdraw, their Shares and receive the Offer Price. Rule 14d-11 provides that the Purchaser may include a Subsequent Offering Period so long as, among other things, (i) the Offer remained open for a minimum of 20 business days and has

expired, (ii) all conditions to the Offer are deemed satisfied or waived by the Purchaser on or before the Expiration Date, (iii) the Purchaser accepts and promptly pays for all Shares tendered during the Offer prior to Expiration Date, (iv) the Purchaser announces the results of the Offer, including the approximate number and percentage of Shares deposited in the Offer, no later than 9:00 a.m. Eastern time on the next business day after the Expiration Date and immediately begins the Subsequent Offering Period, and (v) the Purchaser immediately accepts and promptly pays for Shares as they are tendered during the Subsequent Offering Period. In the event that the Purchaser elects to provide a Subsequent Offering Period, it will provide an announcement to that effect by issuing a press release to a national news service on the next business day after the previously scheduled Expiration Date.

Subject to the applicable rules and regulations of the SEC and the provisions of the Merger Agreement, the Purchaser expressly reserves the right, in its sole discretion, at any time or from time to time, (i) to terminate the Offer if any of the conditions set forth in Section 14—"Certain Conditions of the Offer" have not been satisfied, (ii) to waive any condition to the Offer (other than the Minimum Condition) or (iii) otherwise amend the Offer in any respect, in each case by giving oral or written notice of such extension, termination, waiver or amendment to the Depositary and by making a public announcement thereof.

The rights reserved by the Purchaser by the preceding paragraph are in addition to the Purchaser's rights set forth in Section 14—"Certain Conditions of the Offer". Any extension, delay, termination, waiver or amendment will be followed as promptly as practicable by public announcement thereof, such announcement in the case of an extension to be made no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled Expiration Date, in accordance with the public announcement requirements of Rule 14e-1(d) under the Exchange Act. Subject to applicable law (including Rules 14d-4(d) and 14d-6(c) under the Exchange Act, which require that material changes be promptly disseminated to stockholders in a manner reasonably designed to inform them of such changes) and without limiting the manner in which the Purchaser may choose to make any public announcement, the Purchaser shall have no obligation to publish, advertise or otherwise communicate any such public announcement other than by issuing a press release to a national news service.

If the Purchaser extends the Offer or if the Purchaser (whether before or after its acceptance for payment of Shares) is delayed in its acceptance for payment of or payment for Shares or if it is unable to pay for Shares pursuant to the Offer for any reason, then, without prejudice to the Purchaser's rights under the Offer, the Depositary may retain tendered Shares on behalf of the Purchaser, and such Shares may not be withdrawn except to the extent tendering stockholders are entitled to withdrawal rights as described herein under Section 4—"Withdrawal Rights." However, the ability of the Purchaser to delay the payment for Shares that the Purchaser has accepted for payment is limited by Rule 14e-1(c) under the Exchange Act, which requires that a bidder pay the consideration offered or return the securities deposited by or on behalf of stockholders promptly after the termination or withdrawal of such bidder's offer.

If the Purchaser makes a material change in the terms of the Offer or the information concerning the Offer, or if it waives a material condition of the Offer, the Purchaser will disseminate additional tender offer materials and extend the Offer to the extent required by Rules 14d-4(d), 14d-6(c) and 14e-1 under the Exchange Act. The minimum period during which an offer must remain open following material changes in the terms of the Offer, other than a change in price, percentage of securities sought or inclusion of or changes to a dealer's soliciting fee, will depend upon the facts and circumstances, including the materiality, of the changes. In the SEC's view, an offer should remain open for a minimum of five business days from the date the material change is first published, sent or given to stockholders and, if material changes are made with respect to information that approaches the significance of price and share levels, a minimum of ten business days may be required to allow for adequate dissemination and investor response. Accordingly, if, prior to the Expiration Date, the Purchaser decreases the number of Shares being sought or increases the consideration offered pursuant to the Offer, and if the Offer is scheduled to expire at any time earlier than the tenth business day from the date that notice of such increase or decrease is first published, sent or given to stockholders, the Offer will be extended at least until the

expiration of such tenth business day. As used in this Offer to Purchase, "business day" has the meaning set forth in Rule 14d-1 under the Exchange Act.

The Company has provided the Purchaser with the Company's stockholder list and security position listings for the purpose of disseminating the Offer to holders of Shares. This Offer to Purchase and the related Letter of Transmittal will be mailed to record holders of Shares whose names appear on the Company's stockholder list and will be furnished, for subsequent transmittal to beneficial owners of Shares, to brokers, dealers, commercial banks, trust companies and similar persons whose names, or the names of whose nominees, appear on the stockholder list or, if applicable, who are listed as participants in a clearing agency's security position listing.

2. Acceptance for Payment and Payment for Shares.

Upon the terms and subject to the conditions of the Offer (including, if the Offer is extended or amended, the terms and conditions of any such extension or amendment) and the satisfaction or waiver of all the conditions to the Offer set forth in Section 14—"Certain Conditions of the Offer," the Purchaser will accept for payment and will pay for all Shares validly tendered prior to the Expiration Date and not properly withdrawn promptly after the Expiration Date. Subject to the Merger Agreement and compliance with Rule 14e-1(c) under the Exchange Act, the Purchaser expressly reserves the right to delay payment for Shares in order to comply in whole or in part with any applicable law. See Section 15—"Certain Legal Matters; Regulatory Approvals." If the Purchaser decides to include a Subsequent Offering Period, Purchaser will accept for payment, and promptly pay for, all validly tendered Shares as they are received during the Subsequent Offering Period. See Section 1—"Terms of the Offer."

In all cases (including during any Subsequent Offering Period), payment for Shares accepted for payment pursuant to the Offer will be made only after timely receipt by the Depositary of (i) the certificates evidencing such Shares (the "Share Certificates") or confirmation of a book-entry transfer of such Shares (a "Book-Entry Confirmation") into the Depositary's account at The Depository Trust Company (the "Book-Entry Transfer Facility") pursuant to the procedures set forth in Section 3—"Procedures for Accepting the Offer and Tendering Shares," (ii) the Letter of Transmittal (or a manually signed facsimile thereof), properly completed and duly executed, with any required signature guarantees or, in the case of a book-entry transfer, an Agent's Message (as defined below) in lieu of the Letter of Transmittal and (iii) any other documents required by the Letter of Transmittal. Accordingly, tendering stockholders may be paid at different times depending upon when Share Certificates or Book-Entry Confirmations with respect to Shares are actually received by the Depositary.

For purposes of the Offer (including during any Subsequent Offering Period), the Purchaser will be deemed to have accepted for payment, and thereby purchased, Shares validly tendered and not properly withdrawn as, if and when the Purchaser gives oral or written notice to the Depositary of the Purchaser's acceptance for payment of such Shares pursuant to the Offer. Upon the terms and subject to the conditions of the Offer, payment for Shares accepted for payment pursuant to the Offer will be made by deposit of the Offer Price for such Shares therefor with the Depositary, which will act as agent for tendering stockholders for the purpose of receiving payments from the Purchaser and transmitting such payments to tendering stockholders whose Shares have been accepted for payment. If, for any reason whatsoever, acceptance for payment of any Shares tendered pursuant to the Offer is delayed, or the Purchaser is unable to accept for payment Shares tendered pursuant to the Offer, then, without prejudice to the Purchaser's rights under the Offer hereof, the Depositary may, nevertheless, on behalf of the Purchaser, retain tendered Shares, and such Shares may not be withdrawn, except to the extent that the tendering stockholders are entitled to withdrawal rights as described in Section 4—"Withdrawal Rights" and as otherwise required by Rule 14e-1(c) under the Exchange Act.

Under no circumstances will interest on the Offer Price for Shares be paid, regardless of any delay in making payment for such Shares.

If any tendered Shares are not accepted for payment for any reason pursuant to the terms and conditions of the Offer, or if Share Certificates are submitted evidencing more Shares than are tendered, Share Certificates

evidencing unpurchased Shares will be returned, without expense to the tendering stockholder (or, in the case of Shares tendered by book-entry transfer into the Depositary's account at the Book-Entry Transfer Facility pursuant to the procedure set forth in Section 3—"Procedures for Accepting the Offer and Tendering Shares," such Shares will be credited to an account maintained at the Book-Entry Transfer Facility), as promptly as practicable following the expiration or termination of the Offer.

3. Procedures for Accepting the Offer and Tendering Shares.

Valid Tenders. In order for a stockholder validly to tender Shares pursuant to the Offer, either (1) the Letter of Transmittal (or a manually signed facsimile thereof), properly completed and duly executed, together with any required signature guarantees (or, in the case of a book-entry transfer, an Agent's Message in lieu of the Letter of Transmittal) and any other documents required by the Letter of Transmittal must be received by the Depositary at one of its addresses set forth on the back cover of this Offer to Purchase and either (A) the Share Certificates evidencing tendered Shares must be received by the Depositary at such address or (B) such Shares must be tendered pursuant to the procedure for book-entry transfer described below and a Book-Entry Confirmation must be received by the Depositary, in each case prior to the Expiration Date (or, with respect to any Subsequent Offering Period, if one is provided, prior to the expiration thereof), or (2) the tendering stockholder must comply with the guaranteed delivery procedures described below.

The method of delivery of Share Certificates, the Letter of Transmittal and all other required documents, including delivery through the Book-Entry Transfer Facility, is at the option and risk of the tendering stockholder, and the delivery will be deemed made only when actually received by the Depositary (including, in the case of a book-entry transfer, receipt of a Book-Entry Confirmation). If delivery is by mail, registered mail with return receipt requested, properly insured, is recommended. In all cases, sufficient time should be allowed to ensure timely delivery.

Book-Entry Transfer. The Depositary will establish an account with respect to the Shares at the Book-Entry Transfer Facility for purposes of the Offer within two business days after the date of this Offer to Purchase. Any financial institution that is a participant in the system of the Book-Entry Transfer Facility may make a book-entry delivery of Shares by causing the Book-Entry Transfer Facility to transfer such Shares into the Depositary's account at the Book-Entry Transfer Facility in accordance with the Book-Entry Transfer Facility's procedures for such transfer. However, although delivery of Shares may be effected through book-entry transfer at the Book-Entry Transfer Facility, either the Letter of Transmittal (or a manually signed facsimile thereof), properly completed and duly executed, together with any required signature guarantees, or an Agent's Message in lieu of the Letter of Transmittal, and any other required documents, must, in any case, be received by the Depositary at one of its addresses set forth on the back cover of this Offer to Purchase prior to the Expiration Date (or, with respect to any Subsequent Offering Period, if one is provided, prior to the expiration thereof), or the tendering stockholder must comply with the guaranteed delivery procedure described below. **Delivery of documents to the Book-Entry Transfer Facility does not constitute delivery to the Depositary.**

The term "Agent's Message" means a message, transmitted by the Book-Entry Transfer Facility to, and received by, the Depositary and forming a part of a Book-Entry Confirmation, that states that the Book-Entry Transfer Facility has received an express acknowledgment from the participant in the Book-Entry Transfer Facility tendering the Shares that are the subject of such Book-Entry Confirmation, that such participant has received and agrees to be bound by the terms of the Letter of Transmittal and that the Purchaser may enforce such agreement against such participant.

Signature Guarantees. No signature guarantee is required on the Letter of Transmittal (i) if the Letter of Transmittal is signed by the registered holder (which term, for purposes of this Section 3 includes any participant in the Book-Entry Transfer Facility's systems whose name appears on a security position listing as the owner of the Shares) of the Shares tendered therewith, unless such holder has completed either the box entitled "Special

Delivery Instructions" or the box entitled "Special Payment Instructions" on the Letter of Transmittal or (ii) if the Shares are tendered for the account of a financial institution (including most commercial banks, savings and loan associations and brokerage houses) that is a participant in the Security Transfer Agents Medallion Program or any other "eligible grantor institution," as such term is defined in Rule 17Ad-15 of the Exchange Act (each an "Eligible Institution" and collectively "Eligible Institutions"). In all other cases, all signatures on a Letter of Transmittal must be guaranteed by an Eligible Institution. See Instruction 1 of the Letter of Transmittal. If a Share Certificate is registered in the name of a person or persons other than the signer of the Letter of Transmittal, or if payment is to be made or delivered to, or a Share Certificate not accepted for payment or not tendered is to be issued, in the name of a person other than the registered holder(s), then the Share Certificate must be endorsed or accompanied by appropriate duly executed stock powers, in either case signed exactly as the name(s) of the registered holder(s) appear on the Share Certificate, with the signature(s) on such Share Certificate or stock powers guaranteed by an Eligible Institution as provided in the Letter of Transmittal. See Instructions 1 and 5 of the Letter of Transmittal.

Guaranteed Delivery. If a stockholder desires to tender Shares pursuant to the Offer and the Share Certificates evidencing such stockholder's Shares are not immediately available or such stockholder cannot deliver the Share Certificates and all other required documents to the Depositary prior to the Expiration Date, or such stockholder cannot complete the procedure for delivery by book-entry transfer on a timely basis, such Shares may nevertheless be tendered; provided that all of the following conditions are satisfied:

(i) such tender is made by or through an Eligible Institution;

(ii) a properly completed and duly executed Notice of Guaranteed Delivery, substantially in the form made available by the Purchaser, is received prior to the Expiration Date by the Depositary as provided below; and

(iii) the Share Certificates (or a Book-Entry Confirmation) evidencing all tendered Shares, in proper form for transfer, in each case together with the Letter of Transmittal (or a manually signed facsimile thereof), properly completed and duly executed, with any required signature guarantees (or, in the case of a book-entry transfer, an Agent's Message), and any other documents required by the Letter of Transmittal are received by the Depositary within three Nasdaq Stock Market trading days after the date of execution of such Notice of Guaranteed Delivery.

The Notice of Guaranteed Delivery may be delivered by hand or transmitted by facsimile transmission or mailed to the Depositary and must include a guarantee by an Eligible Institution in the form set forth in the form of Notice of Guaranteed Delivery made available by the Purchaser.

Other Requirements. Notwithstanding any other provision of this Offer, payment for Shares accepted pursuant to the Offer will in all cases only be made after timely receipt by the Depositary of (i) Share Certificates or a Book-Entry Confirmation of a book-entry transfer of such Shares into the Depositary's account at the Book-Entry Transfer Facility pursuant to the procedures set forth in this Section 3, (ii) the Letter of Transmittal (or a manually signed facsimile thereof), properly completed and duly executed, with any required signature guarantees or, in the case of a book-entry transfer, an Agent's Message in lieu of the Letter of Transmittal and (ii) any other documents required by the Letter of Transmittal. Accordingly, tendering stockholders may be paid at different times depending upon when Share Certificates or Book-Entry Confirmations with respect to Shares are actually received by the Depositary. Under no circumstances will interest be paid on the Offer Price to be paid by the Purchaser for the Shares, regardless of any extension of the Offer or any delay in making such payment.

The tender of Shares pursuant to any one of the procedures described above will constitute the tendering stockholder's acceptance of the Offer, as well as the tendering stockholder's representation and warranty that such stockholder has the full power and authority to tender and assign the Shares tendered, as specified in the Letter of Transmittal. The Purchaser's acceptance for payment of Shares tendered pursuant to the Offer will

constitute a binding agreement between the tendering stockholder and the Purchaser upon the terms and subject to the conditions of the Offer.

Determination of Validity. All questions as to the validity, form, eligibility (including time of receipt) and acceptance for payment of any tender of Shares will be determined by the Purchaser in its sole discretion, which determination shall be final and binding on all parties. The Purchaser reserves the absolute right to reject any and all tenders determined by it not to be in proper form or the acceptance for payment of which may, in the opinion of its counsel, be unlawful. The Purchaser also reserves the absolute right to waive any defect or irregularity in the tender of any Shares of any particular stockholder, whether or not similar defects or irregularities are waived in the case of other stockholders. No tender of Shares will be deemed to have been validly made until all defects and irregularities have been cured or waived to the satisfaction of the Purchaser. None of Flexsteel, the Purchaser, the Depositary, the Information Agent or any other person will be under any duty to give notification of any defects or irregularities in tenders or incur any liability for failure to give any such notification. The Purchaser's interpretation of the terms and conditions of the Offer (including the Letter of Transmittal and the instructions thereto) will be final and binding.

Appointment. By executing the Letter of Transmittal as set forth above (or, in the case of a book-entry transfer, by delivering an Agent's Message in lieu of the Letter of Transmittal), the tendering stockholder will irrevocably appoint designees of the Purchaser, and each of them, as such stockholder's attorneys-in-fact and proxies in the manner set forth in the Letter of Transmittal, each with full power of substitution, to the full extent of such stockholder's rights with respect to the Shares tendered by such stockholder and accepted for payment by the Purchaser and with respect to any and all other Shares or other securities or rights issued or issuable in respect of such Shares. All such powers of attorney and proxies will be considered coupled with an interest in the tendered Shares. Such appointment will be effective when, and only to the extent that, the Purchaser accepts for payment Shares tendered by such stockholder as provided herein. Upon such appointment, all prior powers of attorney, proxies and consents given by such stockholder with respect to such Shares or other securities or rights will, without further action, be revoked and no subsequent powers of attorney, proxies, consents or revocations may be given by such stockholder (and, if given, will not be deemed effective). The designees of the Purchaser will thereby be empowered to exercise all voting and other rights with respect to such Shares and other securities or rights, including, without limitation, in respect of any annual, special or adjourned meeting of the Company's stockholders, actions by written consent in lieu of any such meeting or otherwise, as they in their sole discretion deem proper. The Purchaser reserves the right to require that, in order for Shares to be deemed validly tendered, immediately upon the Purchaser's acceptance for payment of such Shares, the Purchaser must be able to exercise full voting, consent and other rights with respect to such Shares and other related securities or rights, including voting at any meeting of stockholders.

Backup Withholding. Under the "backup withholding" provisions of United States federal income tax law, the Depositary may be required to withhold 28% of the amount of any payments pursuant to the Offer. In order to prevent backup withholding with respect to payments to certain stockholders of the Offer Price for Shares purchased pursuant to the Offer, each such stockholder must provide the Depositary with such stockholder's correct taxpayer identification number ("TIN") and certify that such stockholder is not subject to backup withholding by completing the Substitute Form W-9 in the Letter of Transmittal. Certain stockholders (including, among others, all corporations and certain foreign individuals and entities) are not subject to backup withholding. If a stockholder does not provide its correct TIN or fails to provide the certifications described above, the Internal Revenue Service may impose a penalty on the stockholder and payments of cash to the stockholder pursuant to the Offer may be subject to backup withholding. All stockholders surrendering Shares pursuant to the Offer should complete and sign the Substitute Form W-9 included in the Letter of Transmittal to provide the information necessary to avoid backup withholding. Non-corporate foreign stockholders should complete and sign an appropriate Form W-8 (a copy of which may be obtained from the Depositary) in order to avoid backup withholding. See Instruction 8 of the Letter of Transmittal.

4. Withdrawal Rights.

Except as otherwise provided in this Section 4, tenders of Shares made pursuant to the Offer are irrevocable. Shares tendered pursuant to the Offer may be withdrawn at any time prior to the Expiration Date and, unless theretofore accepted for payment by the Purchaser pursuant to the Offer, may also be withdrawn at any time after November 14, 2003.

For a withdrawal to be effective, a written, telegraphic or facsimile transmission notice of withdrawal must be timely received by the Depositary at one of its addresses set forth on the back cover page of this Offer to Purchase. Any such notice of withdrawal must specify the name of the person who tendered the Shares to be withdrawn, the number of Shares to be withdrawn and the name of the registered holder of such Shares, if different from that of the person who tendered such Shares. If Share Certificates evidencing Shares to be withdrawn have been delivered or otherwise identified to the Depositary, then, prior to the physical release of such Share Certificates, the serial numbers shown on such Share Certificates must be submitted to the Depositary and the signature(s) on the notice of withdrawal must be guaranteed by an Eligible Institution, unless such Shares have been tendered for the account of an Eligible Institution. If Shares have been tendered pursuant to the procedure for book-entry transfer as set forth in Section 3—"Procedures for Accepting the Offer and Tendering Shares," any notice of withdrawal must also specify the name and number of the account at the Book-Entry Transfer Facility to be credited with the withdrawn Shares and otherwise comply with the Book-Entry Transfer Facility's procedures.

If the Purchaser extends the Offer, is delayed in its acceptance for payment of Shares or is unable to accept Shares for payment pursuant to the Offer for any reason, then, without prejudice to the Purchaser's rights under the Offer, the Depositary may, nevertheless, on behalf of the Purchaser, retain tendered Shares, and such Shares may not be withdrawn except to the extent that tendering stockholders are entitled to withdrawal rights as described herein.

Withdrawals of Shares may not be rescinded. Any Shares properly withdrawn will thereafter be deemed not to have been validly tendered for purposes of the Offer. However, withdrawn Shares may be re-tendered at any time prior to the Expiration Date or during the Subsequent Offering Period (if any) by following one of the procedures described in Section 3—"Procedures for Accepting the Offer and Tendering Shares."

No withdrawal rights will apply to Shares tendered into a Subsequent Offering Period and no withdrawal rights apply during the Subsequent Offering Period with respect to Shares tendered in the Offer and accepted for payment. See Section 1—"Terms of the Offer."

All questions as to the form and validity (including time of receipt) of any notice of withdrawal will be determined by the Purchaser, in its sole discretion, whose determination will be final and binding. None of Flexsteel, the Purchaser, the Depositary, the Information Agent or any other person will be under duty to give notification of any defects or irregularities in any notice of withdrawal or incur any liability for failure to give any such notification.

5. Certain United States Federal Income Tax Consequences.

The following is a general summary of certain United States federal income tax consequences of the Offer and the Merger relevant to a beneficial holder of Shares whose Shares are tendered and accepted for payment pursuant to the Offer or whose shares are converted into the right to receive cash in the Merger (a "Holder"). This discussion is for general information only and does not purport to consider all aspects of United States federal income taxation that may be relevant to Holders. The discussion is based on the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), existing regulations promulgated thereunder and administrative and judicial interpretations thereof, all as in effect as of the date hereof and all of which are subject to change (possibly with retroactive effect). This discussion applies only to Holders that hold Shares as "capital assets" within the meaning of Section 1221 of the Code (generally, property held for investment) and

does not apply to Shares acquired pursuant to the exercise of employee stock options or otherwise as compensation, shares held as part of a "straddle," "hedge," "conversion transaction," "synthetic security" or other integrated investment, or to certain types of Holders (including, without limitation, financial institutions, insurance companies, tax-exempt organizations and dealers in securities) that may be subject to special rules. This discussion does not address the United States federal income tax consequences to a Holder that, for United States federal income tax purposes, is a non-resident alien individual, a foreign corporation, a foreign partnership or a foreign estate or trust and does not consider the effect of any state, local, foreign or other tax laws.

Each holder should consult its tax advisor as to the particular tax consequences to it of the sale of its Shares, including the applicability and effect of the alternative minimum tax and federal, state, local and foreign tax laws and of possible changes in such tax laws.

The receipt of cash for Shares pursuant to the Offer or the Merger will be a taxable transaction for United States federal income tax purposes and may also be a taxable transaction under applicable state, local and foreign income and other tax laws. For United States federal income tax purposes, a Holder who sells Shares pursuant to the Offer or receives cash in exchange for Shares pursuant to the Merger will generally recognize capital gain or loss equal to the difference (if any) between the amount of cash received and the Holder's adjusted tax basis in Shares sold pursuant to the Offer or exchanged for cash pursuant to the Merger. Gain or loss must be determined separately for each block of Shares sold pursuant to the Offer or exchanged for cash pursuant to the Merger (for example, Shares acquired at the same cost in a single transaction). Such capital gain or loss will be long-term capital gain or loss if the Holder has held such Shares for more than one year at the time of the completion of the Offer or consummation of the Merger. The recently enacted Jobs and Growth Tax Relief Reconciliation Act of 2003 reduces the top individual rate on long-term capital gains to 15 percent (five percent for taxpayers in the lower brackets). The long-term capital gains tax rate changes apply to sales and exchanges (and payments received) on or after May 6, 2003 and before January 1, 2009. There are limitations on the deductibility of capital losses.

Payments in connection with the Offer or the Merger may be subject to "backup withholding" at a rate of 28% unless a Holder of Shares (i) provides a correct TIN (which, for an individual Holder, is the Holder's social security number) and any other required information, or (ii) is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact, and otherwise complies with applicable requirements of the backup withholding rules. A Holder that does not provide a correct TIN may be subject to penalties imposed by the Internal Revenue Service (the "IRS"). Holders may prevent backup withholding by completing and signing the Substitute Form W-9 included as part of the Letter of Transmittal. Any amount paid as backup withholding does not constitute an additional tax and will be creditable against the Holder's United States federal income tax liability, provided that the required information is given to the IRS. If backup withholding results in an overpayment of taxes, a refund may be obtained from the IRS. Each Holder should consult its tax advisor as to such Holder's qualification for exemption from backup withholding and the procedure for obtaining such exemption.

6. Price Range of Shares; Dividends.

The Shares trade on The Nasdaq SmallCap Market under the symbol "DMIF." The following table sets forth, for the periods indicated, the high and low sale prices per Share. Share prices are as reported on The Nasdaq SmallCap Market based on published financial sources.

	Common Stock	
	High	**Low**
Calendar Year 2001:		
Third Quarter	$2.04	$1.25
Fourth Quarter	$1.75	$1.23
Calendar Year 2002:		
First Quarter	$2.03	$1.36
Second Quarter	$2.00	$1.55
Third Quarter	$1.98	$1.32
Fourth Quarter	$1.95	$1.33
Calendar year 2003:		
First Quarter	$2.35	$1.76
Second Quarter	$2.60	$1.70
Third Quarter (through August 19)	$3.29	$2.12

On August 11, 2003, the last full day of trading before the public announcement of the execution of the Merger Agreement, the closing price of the Shares on The Nasdaq SmallCap market was $2.38 per Share. On August 19, 2003, the last full day of trading before the commencement of the Offer, the closing price of the Shares on The Nasdaq SmallCap Market was $3.28 per Share. Stockholders are urged to obtain a current market quotation for the Shares. The Company has not paid any cash dividends on the Shares since the Shares were first issued in 1977. Under the terms of the Merger Agreement, the Company is not permitted to declare, set aside for payment or pay any dividend or distribution with respect to the Shares.

7. Certain Information Concerning the Company.

General. The Company is a Delaware corporation with its principal offices located at One Oxmoor Place, 101 Bullitt Lane, Louisville, Kentucky 40222. The telephone number for the Company is (502) 426-4351. According to the Company's Form 10-K for the fiscal year ended August 31, 2002, the Company is a marketer and importer of residential furniture and a vertically integrated manufacturer, importer and marketer of commercial office furniture. The Company's three marketing divisions consist of DMI Commercial Office Furniture, selling primarily commercial office furniture; WYNWOOD Furniture Company, selling bedroom, dining and occasional furniture; and Home Styles, selling lifestyle furniture for the home.

Available Information. The Shares are registered under the Exchange Act. Accordingly, the Company is subject to the informational reporting requirements of the Exchange Act and, in accordance therewith, is required to file periodic reports, proxy statements and other information with the SEC relating to its business, financial condition and other matters. Such reports, proxy statements and other information can be inspected and copied at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, and at the SEC's regional offices located at 233 Broadway, New York, New York 10279, and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Information regarding the public reference facilities may be obtained from the SEC by telephoning 1-800-SEC-0330. The Company's filings are also available to the public on the SEC's Internet site (http://www.sec.gov). Copies of such materials may also be obtained by mail from the Public Reference Section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates.

Summary Financial Information. Set forth below is certain summary financial information for the Company as excerpted from the Company's Annual Reports on Form 10-K for the fiscal years ended August 31,

2002 and September 1, 2001and the Company's Quarterly Report on Form 10-Q for the quarterly period ended May 31, 2003. More comprehensive financial information is included in such reports and other documents filed by the Company with the SEC, and the following summary is qualified in its entirety by reference to such reports and other documents and all of the financial information and notes contained therein. Copies of such reports and other documents may be examined at or obtained from the SEC in the manner set forth above.

DMI Furniture, Inc.
Summary Financial Information
(in thousands, except per share data)

	9 Months Ended	Fiscal Year Ended	
	May 31, 2003	August 31, 2002	September 1, 2001
Operating Data			
Net sales	$ 78,631	$ 100,856	$ 106,328
Pretax income	2,283	1,834	1,549
Net income	1,496	1,355	875
Basic earnings per share	.35	.32	.21
Diluted net earnings per share	.34	.31	.20
Balance Sheet Data			
Total assets	$ 54,160	$ 46,367	$ 46,877
Stockholders' equity	17,799	16,589	15,552

Recent Developments. The information set forth below is included under the heading "Recent Developments" in the Schedule 14D-9:

"In its public statements following the release of its earnings for the third fiscal quarter conference call, the Company stated that it could not predict when order levels would pick up and expected the operating environment in the fourth fiscal quarter to continue to be difficult. In addition to the current soft market for residential and commercial furniture, the shipment levels in fourth quarter of fiscal 2002 were the highest in the Company's history. Accordingly, the Company continues to expect a significant decline in revenue for the fourth quarter of fiscal 2003 as compared to the fourth quarter of fiscal 2002.

The Company's fourth fiscal quarter will not end until August 30, 2003, and it has not historically been the Company's practice to estimate future financial results. Events that affect the day-to-day timing of when importing revenue is recognized and other factors make it difficult to accurately predict revenue as of a specific future date. The Company currently estimates that revenue for the fourth quarter of fiscal 2003 will be down from between 7% to 15% from the comparable period from a year ago."

Certain Projections. To the knowledge of Flexsteel and the Purchaser, the Company does not, as a matter of course, make public any forecasts as to its future financial performance. However, in connection with Flexsteel's review of the transactions contemplated by the Merger Agreement, the Company provided Flexsteel with certain projected financial information concerning the Company. The Company has advised the Purchaser and Flexsteel that its internal financial forecasts (upon which the projections provided to Flexsteel and the Purchaser were based in part) are, in general, prepared solely for internal use, and capital budgeting and other management decisions and are subjective in many respects and thus susceptible to multiple interpretations and periodic revisions based on actual experience and business developments. The projections also reflect numerous assumptions (not all of which were provided to Flexsteel and the Purchaser), all made by management of the Company, with respect to industry performance, general business, economic, market and financial conditions and other matters, all of which are difficult to predict, many of which are beyond the Company's control, and none of which is subject to approval by Flexsteel or the Purchaser. Accordingly, there can be no assurance that the assumptions made by the Company in preparing the projections will prove accurate. It is expected that there will

be differences between actual and projected results, and actual results may be materially greater or less than those contained in the projections. The inclusion of the projections herein should not be regarded as an indication that any of Flexsteel, the Purchaser, the Company or their respective affiliates or representatives considered or consider the projections to be a reliable prediction of future events, and the projections should not be relied upon as such. These projections are being provided only because the Company made them available to Flexsteel and the Purchaser in connection with their discussions regarding the Offer and the Merger. None of Flexsteel, the Purchaser, the Company or any of their respective affiliates or representatives has made or makes any representation to any person regarding the ultimate performance of the Company compared to the information contained in the projections, and none of them has or intends to update or otherwise revise the projections to reflect circumstances existing after the date when made or to reflect the occurrence of future events even in the event that any or all of the assumptions underlying the projections are shown to be in error.

The projections provided to Flexsteel by the Company included, among other things, the following forecasts of the Company's net sales, gross profit, operating income and net income, respectively (in thousands): $112,037, $21,780, $5,673, and $2,331 in fiscal 2004; $126,100, $24,970, $7,221, and $3,073 in fiscal 2005; and $141,100, $28,664, $9,139, and $4,043 in fiscal 2006. These projections should be read together with the financial statements of the Company that can be obtained from the SEC as described above.

It is the understanding of Flexsteel and the Purchaser that the projections were not prepared with a view to public disclosure or compliance with published guidelines of the SEC or the guidelines established by the American Institute of Certified Public Accountants regarding projections or forecasts. The projections do not purport to present operations in accordance with generally accepted accounting principles, and the Company's independent auditors have not examined or compiled the projections presented herein and accordingly assume no responsibility for them.

Except for the projections and except as otherwise stated in this Offer to Purchase, the information concerning the Company contained herein has been taken from or is based upon reports and other documents on file with the SEC or otherwise publicly available. Although neither the Purchaser nor Flexsteel has any knowledge that would indicate that any statements contained herein based upon such reports and documents are untrue, neither the Purchaser nor Flexsteel takes any responsibility for the accuracy or completeness of the information contained in such reports and other documents or for any failure by the Company to disclose events that may have occurred and may affect the significance or accuracy of any such information.

8. Certain Information Concerning Flexsteel and the Purchaser.

General. Flexsteel is a Minnesota corporation with its principal offices located at 3400 Jackson Street, Dubuque, Iowa 52004-0877. The telephone number of Flexsteel is (563) 556-7730. Flexsteel designs, manufactures and sells a broad line of upholstered furniture for residential, commercial and recreational vehicle seating use. Flexsteel has two operating segments—Seating Product and Retail Stores.

The Purchaser is a Delaware corporation with its principal offices located at 3400 Jackson Street, Dubuque, Iowa 52004-0877. The telephone number of the Purchaser is (563) 556-7730. The Purchaser is a wholly owned subsidiary of Flexsteel. The Purchaser was formed for the purpose of making a tender offer for all of the common stock of the Company.

The name, citizenship, business address, business phone number, principal occupation or employment and five-year employment history for each of the directors and executive officers of Flexsteel and the Purchaser and certain other information are set forth in Schedule I hereto.

On July 28, 1980, Jeffrey T. Bertsch, a director and officer of Flexsteel, purchased 10 Shares for $1.50 per share through an ordinary brokerage transaction. Except as described in this Offer to Purchase, (i) none of Flexsteel, the Purchaser or, to the best knowledge of Flexsteel and the Purchaser, any of the persons listed in Schedule I to this Offer to Purchase or any associate or majority-owned subsidiary of Flexsteel or the Purchaser

or any of the persons so listed beneficially owns or has any right to acquire, directly or indirectly, any Shares and (ii) none of Flexsteel, the Purchaser or, to the best knowledge of Flexsteel and the Purchaser, any of the persons or entities referred to above nor any director, executive officer or subsidiary of any of the foregoing has effected any transaction in the Shares during the past 60 days.

Except as provided in the Merger Agreement, the Tender and Voting Agreements or as otherwise described in this Offer to Purchase, none of Flexsteel, the Purchaser nor, to the best knowledge of Flexsteel and the Purchaser, any of the persons listed in Schedule I to this Offer to Purchase, has any contract, arrangement, understanding or relationship with any other person with respect to any securities of the Company, including, but not limited to, any contract, arrangement, understanding or relationship concerning the transfer or voting of such securities, finder's fees, joint ventures, loan or option arrangements, puts or calls, guarantees of loans, guarantees against loss, guarantees of profits, division of profits or loss or the giving or withholding of proxies.

Except as set forth in this Offer to Purchase, none of Flexsteel, the Purchaser or, to the best knowledge of Flexsteel and the Purchaser, any of the persons listed on Schedule I hereto, has had any business relationship or transaction with the Company or any of its executive officers, directors or affiliates that is required to be reported under the rules and regulations of the SEC applicable to the Offer. Except as set forth in this Offer to Purchase, there have been no contracts, negotiations or transactions between Flexsteel, the Purchaser or any of their respective subsidiaries or, to the best knowledge of Flexsteel and the Purchaser, any of the persons listed in Schedule I to this Offer to Purchase, on the one hand, and the Company or its affiliates, on the other hand, concerning a merger, consolidation or acquisition, tender offer or other acquisition of securities, an election of directors or a sale or other transfer of a material amount of assets. None of the persons listed in Schedule I has, during the past five years, been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors). None of the persons listed in Schedule I has, during the past five years, been a party to any judicial or administrative proceeding (except for matters that were dismissed without sanction or settlement) that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws.

Available Information. Pursuant to Rule 14d-3 under the Exchange Act, Flexsteel and the Purchaser filed with the SEC a Tender Offer Statement on Schedule TO (the "Schedule TO"), of which this Offer to Purchase forms a part, and exhibits to the Schedule TO. Additionally, Flexsteel is subject to the informational reporting requirements of the Exchange Act and, in accordance therewith, is required to file periodic reports, proxy statements and other information with the SEC relating to its business, financial condition and other matters. The Schedule TO and the exhibits thereto, and, such reports, proxy statements and other information, can be inspected and copied at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, and at the SEC's regional offices located at 233 Broadway, New York, New York 10279, and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Information regarding the public reference facilities may be obtained from the SEC by telephoning 1-800-SEC-0330. Flexsteel's filings are also available to the public on the SEC's Internet site (http://www.sec.gov). Copies of such materials may also be obtained by mail from the Public Reference Section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates.

9. Source and Amount of Funds.

The Offer is not conditioned upon any financing arrangements. Flexsteel and the Purchaser estimate that the total amount of funds required to purchase all of the outstanding Shares pursuant to the Offer and the Merger will be approximately $17 million plus related transaction fees and expenses. The Purchaser will acquire all such funds from Flexsteel, which currently intends to use generally available corporate funds for this purpose.

Because the only consideration in the Offer and Merger is cash and the Offer is to purchase all outstanding Shares, and in view of the absence of a financing condition and the amount of consideration payable in relation to the financial capacity of Flexsteel and its affiliates, the Purchaser believes the financial condition of Flexsteel and its affiliates is not material to a decision by a holder of Shares whether to sell, tender or hold Shares pursuant to the Offer.

10. Background of the Offer; Past Contacts or Negotiations with the Company.

On December 6, 2002, Howard Armistead, then a member of the Company Board, contacted K. Bruce Lauritsen, Chief Executive Officer and President of Flexsteel, to inquire if Flexsteel would be interested in learning more about the Company and considering the possibility of acquiring it. On the same day, Flexsteel and the Company entered into a confidentiality agreement in which the Flexsteel agreed to hold in confidence information provided by the Company in connection with Flexsteel's evaluation of a possible acquisition of the Company.

On January 30, 2003, Donald D. Dreher, Chief Executive Officer and President of the Company, and Howard Armistead visited Flexsteel's headquarters in Dubuque, Iowa and met with management of Flexsteel to discuss the businesses of Flexsteel and the Company.

On March 20, Mr. Lauritsen and other members of Flexsteel's management visited the Company's headquarters in Louisville, Kentucky, and toured the Company's facilities in the Huntington, Indiana area.

On April 2, certain members of Flexsteel's board of directors attended the Company's open house in High Point, North Carolina. On April 6, 2003, Mr. Lauritsen and Mr. Dreher had a general discussion about their companies in High Point, North Carolina. On April 28 and 29, Mr. Lauritsen visited Mr. Dreher in Louisville, Kentucky and discussed the Company's management structure and importing capabilities.

On May 14, Flexsteel and the Company entered into a mutual confidentiality agreement so that Flexsteel could supply the Company with its confidential information.

On June 16, Mr. Lauritsen met with Mr. Dreher in Chicago, Illinois and discussed the commercial office segment of the furniture industry and possible synergies between the two companies. Mr. Lauritsen informed Mr. Dreher that Flexsteel was interested in exploring the acquisition of the Company but no specific proposal was presented.

From July 10 to 11 and from July 17 to 18, Flexsteel representatives met with management of the Company and its representatives in Louisville, Kentucky. At these meetings, Flexsteel and its representatives reviewed and discussed the business and financial condition of the Company and commenced legal due diligence on the Company. Flexsteel continued its legal and business review of the Company from July 10 to August 12. During the course this review, Flexsteel representatives had discussions and meetings with Company representatives.

On July 28, the Company Board formed a special committee of independent directors, consisting of Thomas Levine, David Martin, Joseph Chalfant and Gerald Von Deylen, to evaluate and make a recommendation to the Company Board should Flexsteel make an offer to acquire the Company.

On July 29, in connection with continuing discussions relating to the potential acquisition, members of the Company's management made a presentation to management of Flexsteel concerning the Company, its historic and projected financial performance, and its prospects.

On July 30, counsel for Flexsteel provided a draft merger agreement and a draft tender and voting agreement to counsel for the Company.

On July 31, the Board of Directors of Flexsteel authorized Flexsteel's management to proceed with negotiations regarding the terms of the potential acquisition of the Company.

On August 2, Howard Armistead resigned from the Company Board, and Mann, Armistead & Epperson, Ltd., of which Mr. Armistead is a principal, was engaged by the Special Committee as financial advisor to the Special Committee.

On August 5, members of Flexsteel's management and its financial advisor, Braydon Partners, L.L.C., met with representatives of Mann, Armistead and Mr. Dreher to discuss the terms of a possible transaction. At this

meeting, representatives of Flexsteel made a proposal to acquire all the outstanding Shares for $3.05 per Share in cash. The terms of the proposed acquisition were set forth in the draft agreements Flexsteel had previously provided to counsel to the Company. Flexsteel's proposal also included a termination fee of $2 million payable by the Company to Flexsteel if the merger agreement were terminated under certain circumstances. Mann, Armistead and Braydon Partners entered into lengthy discussions about Flexsteel's willingness to pursue the transaction at an offer price at or around $4.00 per Share. After Flexsteel declined to raise the offer price to within this range, Mr. Armistead indicated that Mann, Armistead was prepared to recommend a transaction at $3.50 per Share with a significantly reduced termination fee to the Special Committee and the Company Board. Representatives of Flexsteel indicated that this price range was still too high. Representatives of Flexsteel and Mann, Armistead then discussed the possibility of identifying a price that Mann, Armistead and the Chairman of the Special Committee would recommend to the Special Committee and the Company Board. Following further discussions between representatives of Flexsteel and Mann, Armistead, and after consultation by Mr. Armistead with the Chairman of the Special Committee, Flexsteel indicated that, subject to approval by Flexsteel's Board of Directors and the negotiation of a definitive merger agreement and tender and voting agreements, it was prepared to increase its offer to $3.30 per Share and would reduce the termination fee from $2,000,000 to $1,000,000 provided that Mann, Armistead and the Chairman of the Special Committee were prepared to recommend the transaction on these terms to the Special Committee and the Board of Directors of the Company. After further consultation, Mr. Armistead said that Mann, Armistead and the Chairman would recommend this proposal, subject to negotiation of the definitive merger agreement.

Between August 7 and August 12, representatives of Flexsteel and the Company negotiated the provisions of the merger agreement and the tender and voting agreements.

On August 8, Flexsteel and the Company approached the primary lender under the Company's credit facility to discuss the need for certain waivers required under the credit facility in connection with the proposed transaction so that the Offer and the Merger would not constitute a default under the credit facility, nor would a change in management of the Company.

On August 9, the Board of Directors of Flexsteel unanimously approved the transaction and authorized proceeding with the Offer, the Merger and the transactions contemplated thereby.

Between August 11 and August 12, the Company negotiated the terms of an amendment to the Company's credit facility to permit the consummation of the transactions contemplated by the merger agreement.

On August 12, based on the unanimous recommendation of the Special Committee, the Company Board unanimously approved the Merger Agreement and the transactions contemplated thereby, including the Merger and the Offer, approved the Tender and Voting Agreements, determined Offer and the Merger to be fair to, and in the best interests of, the stockholders of the Company and agreed to recommend that stockholders tender their shares in the Offer and vote their shares in favor of the Merger. Later that day, the Company executed the amendment to its credit facility; Flexsteel, the Purchaser and the Company executed the Merger Agreement; and Flexsteel, the Purchaser and certain stockholders of the Company executed the Tender and Voting Agreements.

On August 13, Flexsteel and the Company issued a joint press release announcing the transaction.

On August 20, the Purchaser commenced the Offer.

During the Offer, Flexsteel and the Purchaser intend to have ongoing contacts with the Company and its directors, officers and stockholders.

11. The Merger Agreement and Related Agreements.

Merger Agreement. The following is a summary of the material provisions of the Merger Agreement, a copy of which is filed as an exhibit to the Schedule TO. The summary is qualified in its entirety by reference to

the Merger Agreement, which is incorporated by reference herein. Capitalized terms used herein and not otherwise defined have the meanings assigned to them in the Merger Agreement.

The Offer. The Merger Agreement provides for the making of the Offer. The obligation of the Purchaser to accept for payment and pay for Shares tendered pursuant to the Offer is subject to the satisfaction of the Minimum Condition and certain other conditions that are described in Section 14—"Certain Conditions of the Offer."

Directors. The Merger Agreement provides that promptly upon the purchase of and payment for Shares pursuant to the Offer, Flexsteel will be entitled to elect or designate such number of directors, rounded up to the next whole number, on the Company Board as is equal to the product of (i) the total number of directors on the Company Board (giving effect to the directors elected or designated by Flexsteel pursuant to the Merger Agreement) and (ii) the percentage that the number of Shares owned by Flexsteel, Purchaser and any of their affiliates bears to the total number of Shares then outstanding (on a fully-diluted basis). The Company, at Flexsteel's request, must either take all actions necessary to promptly increase the size of the Company Board, secure the resignations of such number of its directors, or any combination of the foregoing, as is necessary to enable Flexsteel's designees to be elected or designated to the Company's Board and will cause Flexsteel's designees to be so elected or designated. The Company's obligations relating to the Company Board are subject to Section 14(f) of the Exchange Act and Rule 14f-1 under the Exchange Act.

After Flexsteel's designees are elected or appointed to the Company Board and until the Effective Time, the Company Board must have at least two directors who are directors on the date of the Merger Agreement and who are not officers of the Company (the "Independent Directors"). If there are fewer than two Independent Directors for any reason, the remaining Independent Director, if any, will designate a person who is not an officer or affiliate of the Company, Flexsteel or any of their respective subsidiaries to fill such vacancy, and such person will be deemed to be an Independent Director, or if no Independent Directors remain, the other directors will designate two persons to fill the vacancies who are not officers or affiliates of the Company, Flexsteel or any of their respective subsidiaries and such persons will be deemed to be Independent Directors.

Following the election or appointment of Flexsteel's designees to the Company Board and until the Effective Time, the approval of a majority of the Independent Directors will be required to authorize any: (i) amendment or termination of the Merger Agreement by the Company, (ii) exercise or waiver any of the Company's rights under the Merger Agreement, (iii) extension by the Company of the time for performance of any obligations of Flexsteel or the Purchaser under the Merger Agreement or (iv) other action that would materially delay the receipt of the Merger Consideration by the stockholders of the Company.

The Merger. The Merger Agreement provides that, at the Effective Time, the Purchaser will be merged with and into the Company with the Company being the Surviving Corporation. Following the Merger, the separate existence of the Purchaser will cease, and the Company will continue as the Surviving Corporation, wholly owned by Flexsteel.

If required by the DGCL, the Company will call and hold a meeting of its stockholders as soon as is reasonably practicable following consummation of the Offer for the purpose of voting upon the approval of the Merger Agreement. At any such meeting all Shares then owned by Flexsteel or the Purchaser or any other subsidiary of Flexsteel will be voted in favor of approval of the Merger Agreement.

Pursuant to the Merger Agreement, each Share outstanding at the Effective Time (other than Shares owned by the Company or Flexsteel or any of their respective subsidiaries, all of which will be cancelled, and other than Shares that are held by stockholders, if any, who properly exercise their dissenters' rights under the DGCL) will be converted into the right to receive the Merger Consideration. Stockholders who perfect their dissenters' rights under the DGCL will be entitled to the amounts determined pursuant to such proceedings.

Representations and Warranties. Pursuant to the Merger Agreement, the Company has made customary representations and warranties to Flexsteel and the Purchaser, including representations relating to: organization;

subsidiaries and affiliates; capitalization; corporate authorizations; board approvals; vote required; consents and approvals, no violations; SEC filings and financial statements; absence of certain changes; absence of undisclosed liabilities; litigation; employee benefit plans; taxes; contracts; real and personal property; intellectual property; labor matters; compliance with laws; condition of assets; customers and suppliers; environmental matters; insurance; certain business practices; information provided by the Company for inclusion in the Offer documents or the Schedule 14D-9; the opinion of the Company's financial advisor; and brokers.

Certain representations and warranties in the Merger Agreement made by the Company are qualified as to "materiality," "Company Material Adverse Effect" or "Company Material Adverse Change." For purposes of the Merger Agreement and this Offer to Purchase, the term "Company Material Adverse Effect" or "Company Material Adverse Change" means any change, development, condition or circumstance having a material adverse effect on (i) the assets, business, operations, results of operations, liabilities, or financial condition of the Company and its subsidiaries, taken as a whole, or (ii) the ability of the Company to perform its obligations under the Merger Agreement or consummate each of the transactions contemplated by the Merger Agreement.

Pursuant to the Merger Agreement, Flexsteel and the Purchaser have made customary representations and warranties to the Company, including representations relating to: organization; corporate authorizations; consents and approvals, no violations; the Offer documents and the information provided by Flexsteel and the Purchaser for inclusion in the Schedule 14D-9; brokers; financing; and the Purchaser's activities. Certain representations and warranties in the Merger Agreement made by Flexsteel and the Purchaser are qualified as to "materiality."

Company Conduct of Business Covenants. The Merger Agreement provides that, except as expressly contemplated by the Merger Agreement or set forth on the Company Disclosure Schedule, after the date of the Merger Agreement, and prior to the earlier of (i) the termination of the Merger Agreement in accordance with its terms and (ii) the time the designees of Flexsteel constitute a majority of the Company Board:

(a) the business of the Company and its subsidiaries will be conducted only in the ordinary course of business consistent with past practice, and each of the Company and its subsidiaries will use its reasonable best efforts to preserve its present business organization intact, to keep available the services of its current officers, employees and consultants, and to maintain reasonably good relations with customers, suppliers, employees, contractors, distributors and others having business dealings with it;

(b) neither the Company nor any of its subsidiaries will, (i) directly or indirectly, except with respect to the Company, for the issuance of Shares upon the exercise of the options or other rights to purchase Shares pursuant to the Company's option plans outstanding on the date of the Merger Agreement, issue, sell, transfer, dispose of, encumber or pledge any shares of capital stock of the Company or any capital stock or other equity interests of any of the Company's subsidiaries, securities convertible into or exchangeable for, or options, warrants or rights of any kind to acquire any shares of such capital stock or other equity interests or any other ownership interest; (ii) amend or otherwise change its Certificate of Incorporation or Bylaws or similar organizational documents; (iii) split, combine, reclassify, subdivide or redeem, or purchase or otherwise acquire, directly or indirectly, any of its capital stock or other equity interests; or (iv) declare, set aside or pay any dividend or other distribution payable in cash, stock or property with respect to its capital stock;

(c) neither the Company nor any of its subsidiaries will (i) incur or assume indebtedness (which shall not include trade payables) (except for indebtedness for working capital incurred under the revolving portion of the Company's existing credit facility in the ordinary course of business with the aggregate amount of such indebtedness not to exceed $26,500,000 at any one time) or issue any debt securities; (ii) assume, guarantee, endorse or otherwise become liable or responsible (whether directly, contingently or otherwise) for the obligations of any other person (other than a subsidiary of the Company); (iii) make any loans, advances or capital contributions to, or investments in, any other person (other than the Company or any of its subsidiaries); (iv) acquire (by merger, consolidation, acquisition of stock or assets or otherwise) any corporation, partnership or other business organization

or division thereof or any equity interest therein; (v) transfer, lease, license, sell, mortgage, pledge, dispose of, or encumber any of its material assets or properties, other than in the ordinary course of business consistent with past practice;

(d) neither the Company nor any of its subsidiaries will (i) change the compensation or benefits payable or to become payable to any of its officers, directors, employees, agents or consultants (other than as required by any collective bargaining agreement); (ii) enter into or amend any employment, severance, consulting, termination or other agreement related to employment or employee benefit plans (except as required by law); or (iii) make any loans to any of its officers, directors, employees, agents, consultants or affiliates or change its existing borrowing or lending arrangements for or on behalf of any of such persons;

(e) neither the Company nor any of its subsidiaries will (i) pay or arrange for payment of any pension, retirement allowance or other employee benefit pursuant to any existing plan, agreement or arrangement to any officer, director, employee or affiliate or pay or make any arrangement for payment to any officers, directors, employees or affiliates of the Company of any amount relating to unused vacation days, except payments and accruals made in the ordinary course of business consistent with past practice; (ii) except as may be required pursuant to the terms of an employee benefit plan or agreement as in effect as of the date of the Merger Agreement, adopt or pay, grant, issue, accelerate or accrue salary or other payments or benefits pursuant to any pension, profit-sharing, bonus, extra compensation, incentive, deferred compensation, stock purchase, stock option, stock appreciation right, group insurance, severance pay, retirement or other employee benefit plan, agreement or arrangement, or any employment or consulting agreement with or for the benefit of any director, officer or employee, whether past or present; or (iii) amend in any material respect any such existing employee benefit plan, agreement or arrangement;

(f) neither the Company nor any of its subsidiaries will, (i) modify or amend in any material respect or terminate any material contract to which the Company or any of its subsidiaries is a party or by which any of them or any of their respective properties or assets may be bound; (ii) waive, release or assign any material rights or claims under any of such material contracts; or (iii) enter into any material contract;

(g) neither the Company nor any of its subsidiaries will (i) change any of the accounting methods used by it except for such changes required by United States generally accepted accounting principles; (ii) make any tax election or change any tax election already made, adopt any tax accounting method; (iii) change any tax accounting method, enter into any closing agreement or (iv) settle any claim or assessment relating to taxes or consent to any claim or assessment relating to taxes or any waiver of the statute of limitations for any such claim or assessment;

(h) neither the Company nor any of its subsidiaries will pay, discharge or satisfy any claims, liabilities or obligations (whether absolute, accrued, contingent or otherwise), other than the payment, discharge or satisfaction of any such claims, liabilities or obligations, in the ordinary course of business consistent with past practice, or of claims, liabilities or obligations reflected or reserved against in the financial statements of the Company for the period ended May 31, 2003 or incurred since May 31, 2003 in the ordinary course of business consistent with past practice;

(i) neither the Company nor any of its subsidiaries will (i) settle or commence any action, suit, claim, litigation or other proceeding involving an amount in excess of $50,000 or, in the aggregate, an amount in excess of $250,000 or (ii) enter into any consent decree, injunction or other similar restraint or form of equitable relief in settlement of any action, suit, claim, litigation or other proceeding;

(j) neither the Company nor any of its subsidiaries will adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization of the Company or any of its subsidiaries (other than, with respect to the Company, the Merger);

(k) neither the Company nor any of its subsidiaries will take any action that would reasonably be expected to result in any of the conditions to the Merger in the Merger Agreement or any of the conditions to the

Offer not being satisfied or that would reasonably be expected to materially delay the consummation of, or materially impair the ability of the Company to consummate, the transactions contemplated by the Merger Agreement in accordance with the terms of the Merger Agreement;

(l) neither the Company nor any of its subsidiaries will make any capital expenditure which (i) exceeds $30,000 in the aggregate for the remainder of fiscal year 2003 or (ii) is not in all material respects in accordance with the annual budget for the fiscal year 2004; and

(m) neither the Company nor any of its subsidiaries will enter into any agreement, contract, commitment or arrangement to do any of the foregoing, or authorize, recommend, propose or announce an intention to do any of the foregoing.

No Solicitation. The Company agreed to immediately cease any and all existing discussions, negotiations and communications with any person with respect to any tender or exchange offer involving the Company, any proposal for a merger, consolidation or other business combination involving the Company, any proposal or offer to acquire in any manner a substantial equity interest in, or a substantial portion of the business or assets of, the Company, any proposal or offer with respect to any recapitalization or restructuring with respect to the Company or any proposal or offer with respect to any other transaction similar to any of the foregoing with respect to the Company other than the transactions contemplated by the Merger Agreement (each an "Acquisition Proposal"). Except as provided in the Merger Agreement with respect to a Superior Proposal (defined below), from the date of the Merger Agreement until the earlier of the Effective Time, the termination of the Merger Agreement and the time at which directors designated by Flexsteel and/or the Purchaser constitute a majority of the directors on the Company Board, the Company will not and will not authorize or permit its officers, directors, employees, investment bankers, attorneys, accountants or other agents to directly or indirectly (i) initiate, solicit or encourage, or take any action to facilitate the making of, any offer or proposal which constitutes or is reasonably likely to lead to any Acquisition Proposal, (ii) enter into any agreement with respect to any Acquisition Proposal or (iii) in the event of an unsolicited Acquisition Proposal for the Company, engage in negotiations or discussions with, or provide any information or data to, any person (other than Flexsteel or any of its affiliates or representatives) relating to any Acquisition Proposal.

Notwithstanding the foregoing, prior to the acceptance of Shares pursuant to the Offer, the Company may furnish information concerning its business, properties or assets to any person pursuant to a confidentiality agreement with terms no less favorable to the Company than those contained in its confidentiality agreements with Flexsteel and may negotiate and participate in discussions and negotiations with such person concerning an Acquisition Proposal if, but only if, (x) such Acquisition Proposal provides for consideration to be received by holders of all, but not less than all, of the issued and outstanding Shares and is reasonably likely to be consummated promptly; (y) such person making the Acquisition Proposal has on an unsolicited basis, and in the absence of any violation of these restrictions by the Company or any of its representatives, submitted a bona fide, written proposal to the Company relating to any such transaction which the Company Board determines in good faith, after receiving advice from the company's financial advisors, involves consideration to the holders of the Shares that is superior to the consideration offered pursuant to the Offer and otherwise represents a superior transaction to the Offer and the Merger and which is not conditioned upon obtaining financing; and (z) in the good faith opinion of the Company Board, after consultation with outside legal counsel to the Company, providing such information or access or engaging in such discussions or negotiations is in the best interests of the Company and its stockholders and the failure to provide such information or access or to engage in such discussions or negotiations would cause the Company Board to violate its fiduciary duties to the Company's stockholders under applicable law (an Acquisition Proposal which satisfies clauses (x), (y) and (z) is referred to in the Merger Agreement as a "Superior Proposal"). The Company will promptly, and in any event within one business day following its determination that an Acquisition Proposal is a Superior Proposal and prior to providing any such party with any material non-public information, notify Flexsteel of the receipt of the same, which notice will include the name of the person making such Superior Proposal, the material terms and conditions of such Superior Proposal and any subsequent changes to such terms and conditions. The Company will promptly provide to Flexsteel any material non-public information regarding the Company provided to any other party which was not previously provided to Flexsteel, such additional information to be provided no later than the date it is provided to the other party.

The Merger Agreement provides that neither the Company Board nor any committee thereof may (i) withdraw or modify, or propose to withdraw or modify, in a manner adverse to the transactions contemplated by the Merger Agreement, to Flexsteel or to the Purchaser, the approval or recommendation by the Company Board of the Offer, the Merger Agreement or the Merger, (ii) approve or recommend, or propose to approve or recommend, any Acquisition Proposal or (iii) enter into any agreement with respect to any Acquisition Proposal. Notwithstanding the foregoing, prior to the time of acceptance for payment of Shares in the Offer, the Company Board may withdraw or modify its approval or recommendation of the Offer, the Merger Agreement or the Merger, approve or recommend a Superior Proposal, or enter into an agreement with respect to a Superior Proposal (an "Acquisition Agreement"), in each case at any time after the fifth business day following the Company's delivery to Flexsteel of written notice advising Flexsteel that the Company Board has received a Superior Proposal, specifying the material terms and conditions of the Superior Proposal and identifying the person making the Superior Proposal. The Company may not enter into an acquisition agreement with respect to a Superior Proposal unless the Company complies with the procedures for terminating the Merger Agreement described below. Any withdrawal, modification or change of the recommendation of the Company Board, the approval or recommendation or proposed approval or recommendation of any Superior Proposal or the entry by the Company into any acquisition agreement with respect to a Superior Proposal will not change the approval of the Company Board for purposes of causing any state takeover statute or other state law to be applicable to the transactions contemplated by the Merger Agreement (including each of the Offer, the Merger and the Tender and Voting Agreements).

The Company may terminate the Merger Agreement and enter into an acquisition agreement with respect to a Superior Proposal, if, prior to any such termination, (i) the Company has provided Flexsteel written notice that it intends to terminate the Merger Agreement, identifying the Superior Proposal and the parties thereto and delivering a copy of the acquisition agreement for the Superior Proposal in the form to be entered into, (ii) within a period of five full business days following the delivery of the notice of intent to terminate, Flexsteel does not propose adjustments in the terms and conditions of the Merger Agreement which the Company Board determines in its good faith judgment (after receiving the advice of its financial advisor) to be as favorable to the Company's stockholders as the Superior Proposal and (iii) at least five full business days after the Company has delivered the notice of intent to terminate, the Company delivers to Flexsteel (A) a written notice of termination of the Merger Agreement and (B) a wire transfer of immediately available funds in the amount of the termination fee described below.

The Merger Agreement also provides that the Company agrees to promptly notify Flexsteel if any proposals are received by, any information is requested from, or any negotiations or discussions are sought to be initiated or continued with the Company or its representatives, in each case, in connection with an Acquisition Proposal or the possibility or consideration of making an Acquisition Proposal, which notice shall identify the name of the person making such proposal or request or seeking such negotiations or discussions, the material terms and conditions of any offer or proposal and any subsequent changes to such terms and conditions. The Company also may not terminate, amend, modify or waive any standstill or confidentiality agreements between the Company and any other party entered into prior to the date of the Merger Agreement.

Insurance and Indemnification. The Merger Agreement provides that the Certificate of Incorporation and the By-laws of the Surviving Corporation must contain provisions no less favorable with respect to indemnification and elimination of liability than are set forth in the Certificate of Incorporation and the By-laws of the Company and that these provisions may not be amended, repealed or otherwise modified for a period of six years from the Effective Time in any manner that would affect adversely the rights of individuals, who were directors, officers, employees or agents of the Company at or prior to the Effective Time, unless such modification is required by law.

The Merger Agreement provides that, for a period of six years after the Effective Time, Flexsteel and Surviving Corporation will, jointly and severally, indemnify, defend and hold harmless each person who is currently, or has been at any time prior to the date of the Merger Agreement or who becomes prior to the Effective Time, an officer or director of the Company or any of its subsidiaries (each an "Indemnified Party")

against all expenses (including reasonable attorneys' fees), judgements, and amounts paid in settlement actually and reasonably incurred in connection with any threatened or actual claim, action, suit, proceeding or investigation by reason of the fact that the Indemnified Party is or was a director or officer of the Company or any of its subsidiaries and pertaining to any matter existing or arising out of actions or omissions occurring at or prior to the Effective Time including, without limitation, any claim arising out of the Merger Agreement or any of the transactions contemplated by the Merger Agreement, whether asserted or claimed prior to, at or after the Effective Time. Flexsteel and the Surviving Corporation are not required to indemnify any Indemnified Party if it is determined that the Indemnified Party acted in bad faith or not in a manner such party believed to be in or not opposed to the best interests of the Company. Flexsteel and the Surviving Corporation will also advance expenses as incurred to the fullest extent permitted under applicable law, provided the person to whom such advances are made provides an undertaking to repay such advances if it is ultimately determined that such person is not entitled to indemnification. These indemnification obligations will not be deemed to grant any right to any Indemnified Party which is not permitted under Delaware law and no Indemnified Party will be entitled to indemnification in connection with any claim initiated by the Indemnified Party.

The Merger Agreement provides that Flexsteel will maintain in effect, during the three-year period commencing as of the Effective Time, a policy of directors' and officers' liability insurance for the benefit of each of the Indemnified Parties providing coverage and containing terms no less advantageous to the Indemnified Parties than the coverage and terms of the Company's existing policy of directors' and officers' liability insurance. Flexsteel is not, however, required to pay a per annum premium in excess of 150% of the per annum premium that the Company currently pays for its existing policy of directors' and officers' liability insurance (provided that, (i) if the premium required to be paid by Flexsteel for such policy would exceed such 150% amount, then the coverage of such policy shall be reduced to the maximum amount of coverage, if any, that may be obtained for a per annum premium in such 150% amount, and (ii) if no such policy can be obtained for such 150% amount, Flexsteel shall be relieved of its obligations to the extent such policy is unavailable). Prior to the Effective Time, the Company, with the consent of Flexsteel, may purchase insurance for such three-year period on a prepaid non-cancelable basis, so long as the premium for such three-year period is not in excess of 200% of the per annum premium that the Company currently pays for its existing policy of directors' and officers' liability insurance, in which case Flexsteel shall have no obligation to maintain such insurance.

Employee Stock Options and Other Employee Benefits. The Merger Agreement provides that, prior to the Effective Time, the Company will take all necessary actions so that at the Effective Time, each unexpired and unexercised stock option under the Company's option plans, or, with certain exceptions, otherwise granted by the Company outside of such option plans (the "Options"), will be assumed by Flexsteel in accordance with the existing terms of the Options and the applicable option plans as of the Effective Time. At the Effective Time, each Option assumed by Flexsteel will be automatically converted into an option (each, a "New Flexsteel Option") to purchase common stock, par value $1.00 per share, of Flexsteel (the "Flexsteel Common Shares"). With respect to each such New Flexsteel Option (i) the number of Flexsteel Common Shares subject to such New Flexsteel Option will be determined by multiplying the number of Shares subject to such Option immediately prior to the Effective Time by the Option Exchange Ratio (as defined below), and rounding any fractional share up to the nearest whole share (except as otherwise required by law) and (ii) the per share exercise price of such New Flexsteel Option will be determined by dividing the exercise price per share specified in the assumed Option by the Option Exchange Ratio, and rounding the exercise price thus determined up to the nearest whole cent (except as otherwise required by law). New Flexsteel Options will otherwise be subject to the same terms and conditions as the assumed Options. The "Option Exchange Ratio" means the Offer Price divided by the average of the closing prices per Flexsteel Common Share as reported in *The Wall Street Journal* for each of the ten consecutive trading days in the period ending (and inclusive of) the date that is five trading days prior to the Effective Time. Any option that is not assumed by Flexsteel and that remains unexercised as of the Effective Time will continue in effect until it is exercised or expires in accordance with its terms.

The Merger Agreement provides that prior to the Effective Time, the Company will take all necessary actions so that at the Effective Time, (i) all amounts credited to any participant under the DMI Furniture, Inc.

Stock Compensation and Deferral Plan for Outside Directors (the "Director Deferral Plan") will be paid in cash to the participant, (ii) all liabilities under the Director Deferral Plan will be extinguished and (iii) the Director Deferral Plan will be terminated and made of no further force or effect.

Pursuant to the Merger Agreement, Flexsteel has agreed that during the period commencing at the Effective Time and ending on the date which is one year after the Effective Time, the employees of the Company or any of its subsidiaries, other than those covered by any applicable collective bargaining agreement, immediately before the Effective Time (the "Company Employees") will continue to be provided with salary and benefits under employee benefit plans (other than defined benefit pension plans, plans providing for retiree medical benefits, incentive pay plans, plans that provide equity-based compensation and plans that provide for payments or benefits upon a change in control) that are not substantially less favorable in the aggregate than the benefits provided by the Company and any of its subsidiaries to Company Employees immediately before the Effective Time. The salaries and benefits of Company Employees covered by a collective bargaining agreement will be provided in accordance with the applicable collective bargaining agreement.

For purposes of all employee benefit plans, programs and agreements maintained by or contributed to by Flexsteel and its subsidiaries (including, after the Effective Time, the Surviving Corporation), Flexsteel will, or will cause its subsidiaries to cause each such plan, program or arrangement to credit the service of any Company Employee with the Company or its subsidiaries immediately prior to the Effective Time (to the same extent such service is recognized under analogous plans, programs or arrangements of the Company or its affiliates prior to the Effective Time) as service rendered to Flexsteel or its subsidiaries, as the case may be, for all purposes, other than for benefit accrual purposes under any defined benefit plan or to the extent there would result a duplication of benefits. Company Employees will also be given credit for any deductible or co-payment amounts paid in respect of the plan year in which the Effective Time occurs, to the extent that, following the Effective Time, they participate in any other plan for which deductibles or co-payments are required. Flexsteel will also cause each Parent Plan (as defined below) to waive any preexisting condition which was waived under the terms of any employee benefit plan immediately prior to the Effective Time or waiting period limitation which would otherwise be applicable to a Company Employee at or after the Effective Time. For purposes of the Merger Agreement, a "Parent Plan" means such employee benefit plan, as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended, or other employee benefit or fringe benefit program, that may be in effect generally for employees of Company and its subsidiaries from time to time. The extent to which the foregoing provisions apply to employees covered by a collective bargaining agreement will be determined by the terms of the collective bargaining agreement.

The Merger Agreement provides that, as of the Effective Time, the Surviving Corporation will assume the Amendments to Employment Agreements and Officer Severance Agreements, dated as of May 19, 1988, between the Company and Donald D. Dreher and Joseph G. Hill in accordance with the terms of such agreements.

Conditions to the Merger. The Merger Agreement provides that the obligations of Flexsteel, the Purchaser and the Company to consummate the Merger are subject to the satisfaction of the following conditions at or prior to the Effective Time, any and all of which may be waived in whole or in part by Flexsteel, the Purchaser and the Company, to the extent permitted by law:

(a) if required under the DGCL, the Certificate of Incorporation or Bylaws of the Company, the approval of the Merger and the Merger Agreement by the requisite vote of the Company's stockholders shall have been obtained;

(b) the absence of any injunction or action entered by any Governmental Entity which prohibits the consummation of the Merger; and

(c) the Purchaser shall have purchased Shares pursuant to the Offer.

Termination. The Merger Agreement may be terminated at any time prior to the Effective Time, whether before or after stockholder approval:

(a) by mutual written consent of Flexsteel and the Company;

(b) by either Flexsteel or the Company (i) if, prior to the purchase of any Shares in the Offer, a court of competent jurisdiction or other Governmental Entity has issued an order, decree or ruling or taken any other action, in each case permanently restraining, enjoining or otherwise prohibiting any of the transactions contemplated by the Merger Agreement, (ii) if the Offer is not commenced within ten (10) business days following the date of the Merger Agreement, (iii) if the Offer expires without any Shares being purchased or (iv) if the Offer has not been consummated by November 30, 2003; provided, however, that the right to terminate the Merger Agreement pursuant to clause (ii), (iii) or (iv) above will not be available to any party whose failure to fulfill any obligation under the Merger Agreement has been the cause of, or resulted in, the failure of the Offer to be commenced within ten (10) business days following the date of the Merger Agreement, the failure of the Shares to be purchased in the Offer or the failure of the Offer to be consummated by November 30, 2003, as applicable;

(c) by Flexsteel, at any time prior to the purchase of the Shares pursuant to the Offer, if (i) the Company Board or any committee thereof withdraws, modifies, or changes its recommendation in respect of the Merger Agreement, the Offer or the Merger in a manner adverse to the transactions contemplated by the Merger Agreement, to Flexsteel or to the Purchaser, (ii) the Company Board or any committee thereof recommends or approves, or publicly announces a neutral position with respect to, any Acquisition Proposal, (iii) the Company Board or any committee thereof resolves to do any of the foregoing, (iv) the Company Board or any committee thereof fails to affirm its recommendation in respect of the transactions contemplated by the Merger Agreement within seven days of a request to do so by Flexsteel, (v) the Company violates or breaches any of its non-solicitation obligations described above or (vi) the Company has breached any representation, warranty, covenant or other agreement contained in the Merger Agreement which (A) would give rise to the failure of a condition set forth in paragraph (f) or (g) described below in Section 14—"Certain Conditions of the Offer" and (B) cannot be or has not been cured, in all material respects, within 30 days after the giving of written notice to the Company; or

(d) by the Company, at any time prior to the purchase of the Shares in the Offer, (i) to accept a Superior Proposal as described above or (ii) if Flexsteel or the Purchaser has breached in any material respect any of the representations, warranties, covenants or agreements contained in the Merger Agreement and such breach cannot be or has not been cured, in all material respects, within 30 days after the giving of written notice to Flexsteel.

Fees and Expenses. If (i) Flexsteel terminates the Merger Agreement pursuant to paragraph (c) clauses (i)-(v) above under "—Termination" or (ii) the Company terminates the Merger Agreement pursuant to paragraph (d) clause (i) above under "—Termination"; or (iii) (A) either (1) either Flexsteel or the Company terminates the Merger Agreement pursuant to paragraph (b) clauses (ii)-(iv) above under "—Termination" or (2) Flexsteel terminates the Merger Agreement pursuant to paragraph (c) clause (vi) above under "—Termination" due to the failure of the condition set forth in paragraph (g) described below in Section 14—"Certain Conditions of the Offer", and (B) prior to the date of such termination, an Acquisition Proposal has been publicly announced or communicated to the Company Board and not withdrawn prior to the date of such termination and within twelve months of any such termination, the Company enters into a definitive agreement with any third party with respect to an Acquisition Proposal or any such a transaction is consummated, then the Company must pay to Flexsteel a termination fee of $1,000,000. The Company must pay Flexsteel the termination fee (x) concurrently with the termination in the case of a termination pursuant to paragraph (d) clause (i) above under "—Termination", (y) within two business days after a termination pursuant to paragraph (c) clauses (i)-(v) above under "—Termination", and (z) upon the earlier to occur of the execution of a definitive agreement and the consummation of a transaction in accordance with a termination described in clause (iii) of this paragraph.

Amendment. The Merger Agreement may be amended, modified and supplemented in any and all respects, whether before or after any vote of the stockholders of the Company contemplated thereby, by written agreement

of the parties, but, after the purchase of Shares pursuant to the Offer, any amendment must be approved by a majority of the Independent Directors as described above and, after the approval of the Merger Agreement by the stockholders of the Company, no amendment may be made which by law requires further approval by such stockholders without obtaining such further approval.

Tender and Voting Agreements. The following is a summary of the material provisions of the Tender and Voting Agreements, a form of which is filed as an exhibit to the Schedule TO. The summary is qualified in its entirety by reference to the form of Tender and Voting Agreement, which is incorporated by reference herein.

In connection with the execution of the Merger Agreement, Flexsteel and the Purchaser entered into the Tender and Voting Agreements with certain stockholders of the Company, including Donald D. Dreher, President, Chairman of the Board and Chief Executive Officer of the Company, Joseph G. Hill, Executive Vice President, Operations, of the Company, Foster Holdings, Inc. and LBR&M Associates, L.P. (each a "Tendering Stockholder"). David M. Martin, a director of the Company, is the President of Foster Holdings and General Partner of LBR&M Associates. The Tendering Stockholders own an aggregate of 409,193 Shares representing approximately 8% of the Shares outstanding (on a fully-diluted basis) on the date of the Merger Agreement. The Tendering Stockholders also hold options to acquire 497,101 Shares. Under the terms of the Tender and Voting Agreements, any Shares received by the Tendering Stockholders upon the exercise of stock options are subject to the provisions of the Tender and Voting Agreements.

Each Tendering Stockholder has agreed that, unless their respective Tender and Voting Agreement is terminated as described below, (i) the Tendering Stockholder will validly tender or cause to be validly tendered its Shares to Purchaser pursuant to the Offer as promptly as practicable, and in any event no later than the tenth business day following the commencement of the Offer (except that any Shares held in the name of a brokerage firm or similar agent or intermediary will be tendered as soon as reasonably practicable, but in any event not later than five business days prior to the initial scheduled expiration date of the Offer) and (ii) the Tendering Stockholder will not withdraw or cause to be withdrawn any of the Tendering Stockholder's Shares tendered in the Offer unless the Offer is terminated or has expired without Purchaser purchasing all Shares validly tendered in the Offer.

Each Tendering Stockholder has also agreed that unless their respective Tender and Voting Agreement is terminated as described below, they will not: (i) transfer, assign, sell, gift-over, pledge or otherwise dispose of any or all of their Shares or any right or interest therein; (ii) enter into any contract, option or other agreement, arrangement or understanding with respect to any such transfer; (iii) grant any proxy, power-of-attorney or other authorization or consent with respect to any of their Shares; (iv) deposit any of their Shares into a voting trust, or enter into a voting agreement or arrangement with respect to any of their Shares; (v) exercise, or give notice of an intent to exercise, any options unless the Shares underlying such options become subject to their respective Tender and Voting Agreement upon such option exercise; or (vi) take any other action, other than in such Tendering Stockholder's capacity as an officer or director of the Company, that would in any way restrict, limit or interfere with the performance of such Tendering Stockholder's obligations under their respective Tender and Voting Agreement or the transactions contemplated thereby.

Each Tendering Stockholder irrevocably granted to, and appointed, Flexsteel and any designee of Flexsteel, the Tendering Stockholder's proxy and attorney-in-fact (with full power of substitution), for and in the name, place and stead of the Tendering Stockholder, to vote their Shares, or to grant a consent or approval in respect of their Shares, in connection with any meeting of the stockholders of the Company or any action by written consent in lieu of a meeting of stockholders of the Company (i) in favor of the Merger or any other transaction pursuant to which Flexsteel or the Purchaser proposes to acquire the Company, whether by tender offer, merger, or otherwise, in which stockholders of the Company would receive consideration for their Shares equal to or greater than the consideration to be received by such stockholders in the Offer and the Merger, and/or (ii) against any action or agreement which would impede, interfere with or prevent the Merger, including, but not limited to, any other extraordinary corporate transaction, including a merger, acquisition, sale, consolidation, reorganization or

liquidation involving the Company and a third party, or any other proposal of a third party to acquire the Company. The Tendering Stockholders agreed to vote their Shares as instructed by Flexsteel in writing, if for any reason the proxy granted by each in the Tender and Voting Agreements is not irrevocable.

Each Tendering Stockholder agreed that it will not, directly or indirectly, (i) solicit, initiate, endorse, accept or encourage the submission of any Acquisition Proposal, or (ii) participate in any discussions or negotiations regarding, or furnish to any person any information with respect to, or otherwise cooperate in any way with respect to, or participate in, assist, facilitate, endorse or encourage any proposal that constitutes, or may reasonably be expected to lead to, an Acquisition Proposal; provided, however, that a Tendering Stockholder is not precluded from acting in its capacity as an officer or director of the Company, or taking any action in such capacity (including at the direction of the Company Board), but only in either such case as and to the extent permitted by the Merger Agreement. Each Tendering Stockholder agreed to immediately cease participating in any discussions or negotiations with any parties that may be ongoing with respect to an Acquisition Proposal.

The Tender and Voting Agreements terminate upon the earlier to occur of (i) the Effective Time and (ii) the date of termination of the Merger Agreement in accordance with its terms.

Confidentiality Agreements. The following is a summary of the material provisions of the Confidentiality Agreement, dated as of December 5, 2002, between the Company and Flexsteel (the "Confidentiality Agreement") and the Mutual Confidentiality Agreement, dated as of May 14, 2003, between the Company and Flexsteel (the "Mutual Confidentiality Agreement"), which are filed as exhibits to the Schedule TO. The summary is qualified in its entirety by reference to such confidentiality agreements, which are incorporated by reference herein.

The Confidentiality Agreement contains customary provisions pursuant to which, among other matters, Flexsteel agrees to keep confidential all non-public information furnished to it by the Company, subject to customary exceptions, and to use such confidential information only for the purpose of evaluating a possible transaction involving the Company and Flexsteel.

The Confidentiality Agreement also provides that until December 5, 2004, Flexsteel may not, directly or indirectly, without the prior written consent of the Company Board, (i) acquire, agree to acquire or make any proposal to acquire, directly or indirectly, greater than 5% of any class of voting securities or any property of the Company or any of its affiliates, (ii) propose to enter into, directly or indirectly, any merger, consolidation, recapitalization, business combination or other similar transaction involving the Company or any of its affiliates, (iii) make, or participate in, any solicitation of proxies to vote, or seek to advise or influence any person with respect to the voting of any voting securities of the Company or any of its affiliates, (iv) form, join or participate in a "group" with respect to any voting securities of the Company or any of its affiliates, (v) otherwise act, alone or in concert with others, to seek control or influence the management, Company Board or policies of the Company, (vi) disclose any intention, plan or arrangement inconsistent with the these restrictions, or (vii) advise, assist or encourage any other person in connection with any of the foregoing.

The Mutual Confidentiality Agreement contains customary provisions pursuant to which, among other matters, each of Flexsteel and the Company agree to keep confidential all confidential information furnished by the other party, subject to customary exceptions.

12. Purpose of the Offer; Plans for the Company.

Purpose of the Offer. The purpose of the Offer is to acquire control of, and the entire equity interest in, the Company. The purpose of the Merger is to acquire all outstanding Shares not tendered and purchased pursuant to the Offer. If the Offer is successful, the Purchaser intends to consummate the Merger as promptly as practicable.

The Company Board has approved the Merger and the Merger Agreement. Depending upon the number of Shares purchased by the Purchaser pursuant to the Offer, the Company Board may be required to submit the

Merger Agreement to the Company's stockholders for approval at a stockholder's meeting convened for that purpose in accordance with the DGCL. If stockholder approval is required, the Merger Agreement must be approved by a majority of all votes entitled to be cast at such meeting.

If the Minimum Condition is satisfied, the Purchaser will have sufficient voting power to approve the Merger Agreement at the Company stockholders' meeting without the affirmative vote of any other stockholder. If the Purchaser acquires at least 90% of the then outstanding Shares pursuant to the Offer, the Merger may be consummated without a stockholder meeting and without the approval of the Company's stockholders. The Merger Agreement provides that the Purchaser will be merged into the Company and that the certificate of incorporation and bylaws of the Purchaser will be the certificate of incorporation and bylaws of the Surviving Corporation following the Merger; provided that the name of the Surviving Corporation will be "DMI Furniture, Inc."

Appraisal Rights. Under the DGCL, holders of Shares do not have dissenters' rights as a result of the Offer. In connection with the Merger, however, stockholders of the Company will have the right to dissent and demand appraisal of their Shares under the DGCL. Dissenting stockholders who comply with the applicable statutory procedures under the DGCL will be entitled to receive a judicial determination of the fair value of their Shares (exclusive of any element of value arising from the accomplishment or expectation of the Merger) and to receive payment of such fair value in cash. Any such judicial determination of the fair value of the Shares could be based upon considerations other than or in addition to the price per Share paid in the Merger and the market value of the Shares. In *Weinberger v. UOP, Inc.*, the Delaware Supreme Court stated, among other things, that "proof of value by any techniques or methods which are generally considered acceptable in the financial community and otherwise admissible in court" should be considered in an appraisal proceeding. Stockholders should recognize that the value so determined could be higher or lower than the price per Share paid pursuant to the Offer or the consideration per Share to be paid in the Merger. Moreover, the Purchaser may argue in an appraisal proceeding that, for purposes of such a proceeding, the fair value of the Shares is less than the price paid in the Offer or the Merger.

Plans for the Company. Pursuant to the terms of the Merger Agreement, promptly upon the purchase of and payment for any Shares by the Purchaser pursuant to the Offer, Flexsteel currently intends to seek maximum representation on the Company Board, subject to the requirement in the Merger Agreement regarding the presence of at least two Independent Directors on the Company Board until the Effective Time. The Purchaser currently intends, as soon as practicable after consummation of the Offer, to consummate the Merger.

It is expected that, initially following the Merger, the business and operations of the Company will, except as set forth in this Offer to Purchase, be continued substantially as they are currently being conducted. Flexsteel currently intends to maintain the Company's headquarters in Louisville, Kentucky, and to retain the Company's existing management. Flexsteel will continue to evaluate the business and operations of the Company during the pendency of the Offer and after the consummation of the Offer and the Merger and will take such actions as it deems appropriate under the circumstances then existing. Thereafter, Flexsteel intends to review such information as part of a comprehensive review of the Company's business, operations, capitalization, indebtedness and management with a view to optimizing development of the Company's potential in conjunction with Flexsteel's existing business.

Prior to entering into the Merger Agreement, the Company entered into an amendment to its credit facility, which, among other things, amended the terms of the credit facility to permit the consummation of the Offer and the Merger. Flexsteel is evaluating the Company's borrowing requirements and may seek to renegotiate or refinance all or a portion of the Company's existing credit facility following the consummation of the Merger.

Except as described above or elsewhere in this Offer to Purchase, the Purchaser and Flexsteel have no present plans or proposals that would relate to or result in (i) any extraordinary corporate transaction involving the Company or any of its subsidiaries (such as a merger, reorganization or liquidation), (ii) any purchase, sale or transfer of a material amount of assets of the Company or any of its subsidiaries, (iii) any material

change in the Company's dividend policy, capitalization or indebtedness, (iv) any change in the Company Board or management of the Company, (v) any other material change in the Company's corporate structure or business, (vi) a class of securities of the Company being delisted from a national securities exchange or ceasing to be authorized to be quoted in an inter-dealer quotation system of a registered national securities association or (vii) a class of equity securities of the Company being eligible for termination of registration pursuant to Section 12(g) of the Exchange. Act.

13. Certain Effects of the Offer.

Market for the Shares. The purchase of Shares pursuant to the Offer will reduce the number of holders of Shares and the number of Shares that might otherwise trade publicly, which could adversely affect the liquidity and market value of the remaining Shares held by stockholders other than the Purchaser. The Purchaser cannot predict whether the reduction in the number of Shares that might otherwise trade publicly would have an adverse or beneficial effect on the market price for, or marketability of, the Shares or whether such reduction would cause future market prices to be greater or less than the Offer Price.

Stock Quotation. The Shares are quoted on The Nasdaq SmallCap Market. According to Nasdaq's published guidelines, the Shares might no longer be eligible for inclusion on the Nasdaq SmallCap Market if, among other things, the number of publicly held Shares falls below 500,000, the number of record holders of 100 shares or more falls below 300 or the market value of publicly held Shares over a 30-consecutive business day period is less than $1,000,000. Shares held by officers or directors of the Company or their immediate families, or by any beneficial owner of 10% or more of the Shares, ordinarily will not be considered to be publicly held for this purpose.

If as a result of the purchase of Shares in the Offer or otherwise, the Shares cease to be quoted on the Nasdaq SmallCap Market, the market for the Shares could be adversely affected. It is possible that the Shares would be traded on other securities exchanges (with trades published by such exchanges), the OTC Bulletin Board or in a local or regional over-the-counter market. The extent of the public market for the Shares and the availability of such quotations would, however, depend upon the number of holders of Shares and the aggregate market value of the Shares remaining at such time, the interest in maintaining a market in the Shares on the part of securities firms, the possible termination of registration of the Shares under the Exchange Act, as described below, and other factors.

Margin Regulations. The Shares are currently "margin securities" under the Regulations of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"), which has the effect, among other things, of allowing brokers to extend credit on the collateral of the Shares. Depending upon factors similar to those described above regarding the market for the Shares and stock quotations, it is possible that, following the Offer, the Shares would no longer constitute "margin securities" for the purposes of the margin regulations of the Federal Reserve Board and therefore could no longer be used as collateral for loans made by brokers.

Exchange Act Registration. The Shares are currently registered under the Exchange Act. Such registration may be terminated upon application of the Company to the SEC if the Shares are neither listed on a national securities exchange nor held by 300 or more holders of record. Termination of registration of the Shares under the Exchange Act would substantially reduce the information required to be furnished by the Company to its stockholders and to the SEC and would make certain provisions of the Exchange Act no longer applicable to the Company, such as the short-swing profit recovery provisions of Section 16(b) of the Exchange Act, the requirement of furnishing a proxy statement pursuant to Section 14(a) of the Exchange Act in connection with stockholders' meetings and the related requirement of furnishing an annual report to stockholders and the requirements of Rule 13e-3 under the Exchange Act with respect to "going private" transactions. Furthermore, the ability of "affiliates" of the Company and persons holding "restricted securities" of the Company to dispose of such securities pursuant to Rule 144 promulgated under the Securities Act of 1933, as amended, may be impaired or eliminated. If registration of the Shares under the Exchange Act were terminated, the Shares would no longer be

"margin securities" or be eligible for trading on the Nasdaq SmallCap Market. Flexsteel and the Purchaser currently intend to seek to cause the Company to terminate the registration of the Shares under the Exchange Act as soon after consummation of the Offer as the requirements for termination of registration are met.

14. Certain Conditions of the Offer.

Notwithstanding any other provisions of the Offer, and in addition to (and not in limitation of) the Purchaser's right to extend and amend the Offer at any time in its sole discretion (subject to the provisions of the Merger Agreement), the Purchaser shall not be required to accept for payment or, subject to any applicable rules and regulations of the SEC, including Rule 14e-1(c) under the Exchange Act (relating to the Purchaser's obligation to pay for or return tendered Shares after termination or withdrawal of the Offer), pay for, and may delay the acceptance for payment of or, subject to the restriction referred to above, the payment for, any validly tendered Shares if by the expiration of the Offer (as it may be extended in accordance with the requirements of the Merger Agreement), (i) the Minimum Condition shall not be satisfied or (ii) at any time on or after August 12, 2003 and prior to the acceptance for payment of Shares pursuant to the Offer, any of the following events shall occur and be continuing:

(a) there shall be pending any suit, action or proceeding by any court, arbitral tribunal, administrative agency or commission or other governmental or other regulatory authority or agency, foreign or domestic (a "Governmental Entity") against the Purchaser, Flexsteel, the Company or any of its subsidiaries (i) seeking to restrain or prohibit Flexsteel's or the Purchaser's ownership or operation (or that of any of their respective subsidiaries or affiliates) of all or a material portion of their or the Company's and its subsidiaries' businesses or assets, or to compel Flexsteel or the Purchaser or their respective subsidiaries and affiliates to dispose of or hold separate any material portion of the business or assets of the Company or Flexsteel and their respective subsidiaries, (ii) challenging the acquisition by Flexsteel or the Purchaser of any Shares under the Offer, seeking to restrain or prohibit the making or consummation of the Offer or the Merger or the performance of any of the other transactions contemplated by the Merger Agreement, or seeking to obtain from the Company, Flexsteel or the Purchaser any material damages, (iii) seeking to impose material limitations on the ability of the Purchaser, or render the Purchaser unable, to accept for payment, pay for or purchase some or all of the Shares pursuant to the Offer and the Merger, (iv) seeking to impose limitations on the ability of the Purchaser or Flexsteel to exercise full rights of ownership of the Shares, including, without limitation, the right to vote the Shares purchased by it on all matters properly presented to the Company's stockholders; or (v) which otherwise would reasonably be expected to have a Company Material Adverse Effect;

(b) there shall be any statute, rule, regulation, judgment, order or injunction enacted, entered, enforced, promulgated or deemed applicable by any Governmental Entity, to the Offer or the Merger, or any other action shall be taken by any Governmental Entity that is reasonably likely to result, directly or indirectly, in any of the consequences referred to in clauses (i) through (v) of paragraph (a) above;

(c) there shall have occurred (i) a declaration of a banking moratorium or any suspension of payments in respect of banks in the United States (whether or not mandatory), (ii) any limitation (whether or not mandatory) by any Governmental Entity on the extension of credit generally by banks or other financial institutions or (iii) a change in general financial, bank or capital market conditions which materially and adversely affects the ability of financial institutions in the United States to extend credit or syndicate loans for credit worthy borrowers;

(d) since August 12, 2003, there shall have occurred any events or changes which have had or which would reasonably be expected to have or constitute, individually or in the aggregate, a Company Material Adverse Change or a Company Material Adverse Effect;

(e) the Company Board or any committee thereof shall have (i) withdrawn, or modified or changed its recommendation in respect of the Merger Agreement, the Offer or the Merger in a manner adverse to the transactions contemplated by the Merger Agreement, to Flexsteel or to the Purchaser (including by

amendment of its Solicitation/Recommendation Statement on Schedule 14D-9), (ii) recommended or approved, or publicly announced a neutral position with respect to, any Acquisition Proposal, (iii) resolved to do any of the foregoing or (iv) failed to reaffirm its recommendation in respect of the transactions contemplated by the Merger Agreement within seven days of a request to do so by Flexsteel;

(f) any of the representations or warranties of the Company contained in the Merger Agreement shall not be true and correct (without giving effect to any qualifications as to "materiality" or Company Material Adverse set forth therein), in each case as if such representation or warranty was made as of such time on or after the date of the Merger Agreement (except that any representations or warranties that speak as of a specified date need only be true and correct as of such specified date), except where the failure of such representations and warranties to be so true and correct (without giving any effect to any qualifications as to "materiality" or Company Material Adverse Effect set forth therein) would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect;

(g) the Company shall have materially breached or failed, in any material respect, to perform or to comply with its agreements and covenants to be performed or complied with by it under the Merger Agreement; or

(h) the Merger Agreement shall have been terminated in accordance with its terms.

The foregoing conditions are for the benefit of Flexsteel and the Purchaser, may be asserted by Flexsteel or the Purchaser regardless of the circumstances giving rise to such condition, and may be waived by Flexsteel or the Purchaser in whole or in part at any time and from time to time in the discretion of Flexsteel or the Purchaser, subject in each case to the terms of the Merger Agreement. The failure by Flexsteel or the Purchaser at any time to exercise any of the foregoing rights shall not be deemed a waiver of any such right and, each such right shall be deemed an ongoing right which may be asserted at any time and from time to time.

15. Certain Legal Matters; Regulatory Approvals.

General. The Purchaser is not aware of any pending legal proceeding relating to the Offer. Except as described in this Section 15, based on its examination of publicly available information filed by the Company with the SEC and other publicly available information concerning the Company, the Purchaser is not aware of any governmental license or regulatory permit that appears to be material to the Company's business that might be adversely affected by the Purchaser's acquisition of Shares as contemplated herein or of any approval or other action by any governmental, administrative or regulatory authority or agency, domestic or foreign, that would be required for the acquisition or ownership of Shares by the Purchaser or Flexsteel as contemplated herein. Should any such approval or other action be required, the Purchaser currently contemplates that, except as described below under "State Takeover Statutes," such approval or other action will be sought. While the Purchaser does not currently intend to delay acceptance for payment of Shares tendered pursuant to the Offer pending the outcome of any such matter, there can be no assurance that any such approval or other action, if needed, would be obtained or would be obtained without substantial conditions or that if such approvals were not obtained or such other actions were not taken, adverse consequences might not result to the Company's business, or certain parts of the Company's business might not have to be disposed of, any of which could cause the Purchaser to elect to terminate the Offer without the purchase of Shares thereunder under certain conditions. See Section 14— "Certain Conditions of the Offer."

State Takeover Statutes. A number of states have adopted laws that purport, to varying degrees, to apply to attempts to acquire corporations that are incorporated in, or that have substantial assets, stockholders, principal executive offices or principal places of business or whose business operations otherwise have substantial economic effects in, such states. The Company, directly or through subsidiaries, conducts business in a number of states throughout the United States, some of which have enacted such laws.

In *Edgar v. MITE Corp.*, the Supreme Court of the United States invalidated on constitutional grounds the Illinois Business Takeover Statute which, as a matter of state securities law, made takeovers of corporations

meeting certain requirements more difficult. However, in 1987 in *CTS Corp. v. Dynamics Corp. of America*, the Supreme Court held that the State of Indiana could, as a matter of corporate law, constitutionally disqualify a potential acquiror from voting shares of a target corporation without the prior approval of the remaining stockholders where, among other things, the corporation is incorporated in, and has a substantial number of stockholders in, the state. Subsequently, in *TLX Acquisition Corp. v. Telex Corp.*, a Federal District Court in Oklahoma ruled that the Oklahoma statutes were unconstitutional insofar as they apply to corporations incorporated outside Oklahoma in that they would subject such corporations to inconsistent regulations. Similarly, in *Tyson Foods, Inc. v. McReynolds*, a Federal District Court in Tennessee ruled that four Tennessee takeover statutes were unconstitutional as applied to corporations incorporated outside Tennessee. This decision was affirmed by the United States Court of Appeals for the Sixth Circuit. In December 1988, a U.S. federal district court in Florida held in *Grand Metropolitan PLC v. Butterworth* that the provisions of the Florida Affiliated Transactions Act and the Florida Control Share Acquisition Act were unconstitutional as applied to corporation incorporated outside of Florida.

The Company is incorporated under the laws of the State of Delaware. In general, Section 203 of the DGCL ("Section 203") prevents an "interested stockholder" (including a person who has the right to acquire 15% or more of the corporation's outstanding voting stock) from engaging in a "business combination" (defined to include mergers and certain other actions) with a Delaware corporation for a period of three years following the date such person became an interested stockholder. The Company Board approved for purposes of Section 203 the entering into by the Purchaser, Flexsteel and the Company of the Merger Agreement and the consummation of the transactions contemplated thereby and has taken all appropriate action so that Section 203, with respect to the Company, will not be applicable to Flexsteel and the Purchaser by virtue of such actions. In addition, the Company Board approved for purposes of Section 203 the entering into of the Tender and Voting Agreements by the Purchaser, Flexsteel and the Tendering Stockholders and the transactions contemplated thereby and has taken all appropriate action so that Section 203 with respect to the Company, will not be applicable to Flexsteel and the Purchaser by virtue of such action.

The Purchaser is not aware of any state takeover laws or regulations which are applicable to the Offer or the Merger and has not attempted to comply with any state takeover laws or regulations. If any government official or third party should seek to apply any state takeover law to the Offer or the Merger or other business combination between the Purchaser or any of its affiliates and the Company, the Purchaser will take such action as then appears desirable, which action may include challenging the applicability or validity of such statute in appropriate court proceedings. In the event it is asserted that one or more state takeover statutes is applicable to the Offer or the Merger and an appropriate court does not determine that it is inapplicable or invalid as applied to the Offer or the Merger, the Purchaser might be required to file certain information with, or to receive approvals from, the relevant state authorities or holders of Shares, and the Purchaser might be unable to accept for payment or pay for Shares tendered pursuant to the Offer, or be delayed in continuing or consummating the Offer or the Merger. In such case, the Purchaser may not be obligated to accept for payment or pay for any tendered Shares. See Section 14—"Certain Conditions of the Offer."

United States Antitrust Law. Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), and the rules that have been promulgated under the HSR Act by the Federal Trade Commission (the "FTC"), certain acquisition transactions may not be consummated unless certain information has been furnished to the FTC and the Antitrust Division of the Department of Justice (the "Antitrust Division") and certain waiting period requirements have been satisfied. The Offer and the Merger are not subject to the filing and waiting period requirements of the HSR Act.

Notwithstanding the foregoing, the FTC and the Antitrust Division frequently scrutinize the legality under the antitrust laws of transactions such as the Purchaser's acquisition of Shares in the Offer and the Merger. At any time before the Purchaser's acquisition of Shares, the FTC or the Antitrust Division could take such action under the antitrust laws as it deems necessary or desirable in the public interest, including seeking to enjoin the Purchaser's acquisition of Shares in the Offer, the Merger or otherwise, or seeking the divestiture of Shares acquired by the Purchaser, or the divestiture of substantial assets of Flexsteel or its subsidiaries. Private parties,

as well as state governments, may also bring legal action under the antitrust laws under certain circumstances. The Purchaser does not believe that the consummation of the Offer or the Merger will result in a violation of any applicable antitrust laws. However, there can be no assurance that a challenge to the Offer or the Merger or other acquisition of Shares by the Purchaser on antitrust grounds will not be made or, if such a challenge is made, what the result will be. See Section 14—"Certain Conditions of the Offer" of this Offer to Purchase for certain conditions to the Offer, including conditions with respect to litigation and certain governmental actions.

Foreign Antitrust Law. The antitrust and competition laws of certain foreign countries may apply to the Offer and the Merger and filings and notifications may be required. The Purchaser, Flexsteel and the Company are reviewing whether any such filings are required in connection with the Offer or the Merger and intend to make such filings promptly to the extent required. However, the Purchaser does not currently believe that any such filings will be required.

Going Private Transactions. The SEC has adopted Rule 13e-3 under the Exchange Act which is applicable to certain "going private" transactions and which may under certain circumstances be applicable to the Merger or another business combination following the purchase of Shares pursuant to the Offer in which the Purchaser seeks to acquire the remaining Shares not held by it. The Purchaser believes that Rule 13e-3 will not be applicable to the Merger because it is anticipated that the Merger will be effected within one (1) year following the consummation of the Offer and, in the Merger, stockholders will receive the same price per Share as paid in the Offer. Rule 13e-3 requires, among other things, that certain financial information concerning the Company and certain information relating to the fairness of the proposed transaction and the consideration offered to minority stockholders be filed with the SEC and disclosed to stockholders prior to consummation of the transaction.

16. Fees and Expenses.

Braydon Partners, LLC has acted as financial advisor to Flexsteel in connection with the proposed acquisition of the Company. Braydon Partners, LLC will receive reasonable and customary compensation for its services as financial advisor and will be reimbursed for certain out-of-pocket expenses. Flexsteel will indemnify Braydon Partners, LLC and certain related persons against certain liabilities and expenses in connection with its engagement, including certain liabilities under the federal securities laws.

Flexsteel and the Purchaser have retained Innisfree M&A Incorporated to be the Information Agent and American Stock Transfer and Trust Company to be the Depositary in connection with the Offer. The Information Agent may contact holders of Shares by mail, telephone, telecopy, telegraph and personal interview and may request banks, brokers, dealers and other nominees to forward materials relating to the Offer to beneficial owners of Shares.

The Information Agent and the Depositary each will receive reasonable and customary compensation for their respective services in connection with the Offer, will be reimbursed for reasonable out-of-pocket expenses and will be indemnified against certain liabilities and expenses in connection therewith, including certain liabilities under federal securities laws.

Neither Flexsteel nor the Purchaser will pay any fees or commissions to any broker or dealer or to any other person (other than to the Depositary and the Information Agent) in connection with the solicitation of tenders of Shares pursuant to the Offer. Brokers, dealers, commercial banks and trust companies will, upon request, be reimbursed by the Purchaser for customary mailing and handling expenses incurred by them in forwarding offering materials to their customers.

17. Miscellaneous.

The Offer is not being made to (nor will tenders be accepted from or on behalf of) holders of Shares in any jurisdiction in which the making of the Offer or the acceptance thereof would not be in compliance with the laws

of such jurisdiction. However, the Purchaser may, in its discretion, take such action as it may deem necessary to make the Offer in any such jurisdiction and to extend the Offer to holders of Shares in such jurisdiction.

No person has been authorized to give any information or to make any representation on behalf of Flexsteel or the Purchaser not contained herein or in the Letter of Transmittal, and, if given or made, such information or representation must not be relied upon as having been authorized.

The Purchaser has filed with the SEC a Tender Offer Statement on Schedule TO pursuant to Rule 14d-3 of the General Rules and Regulations under the Exchange Act, together with exhibits furnishing certain additional information with respect to the Offer, and may file amendments thereto. In addition, the Company has filed with the SEC a Solicitation/ Recommendation Statement on Schedule 14D-9, together with exhibits, pursuant to Rule 14d-9 under the Exchange Act, setting forth the recommendation of the Company Board with respect to the Offer and the reasons for such recommendation and furnishing certain additional related information. A copy of such documents, and any amendments thereto, may be examined at, and copies may be obtained from, the SEC (but not the regional offices of the SEC) in the manner set forth under Section 7—“Certain Information Concerning the Company” above.

Churchill Acquisition Corp.

August 20, 2003

SCHEDULE I
DIRECTORS AND EXECUTIVE OFFICERS OF
FLEXSTEEL AND THE PURCHASER

1. Directors and Executive Officers of Flexsteel. The following table sets forth the name, present principal occupation or employment and material occupations, positions, offices or employments for the past five years of each director and executive officer of Flexsteel. Unless otherwise indicated, the current business address of each person is 3400 Jackson Street, Dubuque, Iowa 52004-0877. Each director and officer is a citizen of the United States of America.

Name	Present Principal Occupation or Employment; Material Positions Held During the past Five Years
L. Bruce Boylen	Chairman of the Board of Flexsteel Industries, Inc. since 2001; Vice President of Fleetwood Enterprises, Inc. (manufacturer of recreational vehicles and manufactured homes) (retired). Mr. Boylen has been a director of Flexsteel since 1993. Age 70.
Jeffrey T. Bertsch	Vice President Corporate Services of Flexsteel Industries, Inc. since 1989. Mr. Bertsch has been a director of Flexsteel since 1997. Mr. Bertsch also serves as a director of Churchill Acquisition Corp. and American Trust and Savings Bank (Dubuque, Iowa) and as a director and secretary of Retirement Investment Corporation. Mr. Bertsch previously served as a Trustee of the University of Dubuque. Age 48.
Patrick M. Crahan	Vice President, Dubuque Upholstering Division, of Flexsteel Industries, Inc. since 1989. Mr. Crahan has been a director of Flexsteel since 1997. Mr. Crahan also serves as a director of Churchill Acquisition Corp. and American Trust and Savings Bank (Dubuque, Iowa) and as a Trustee of the University of Dubuque. Age 55.
Lynn J. Davis	General Partner of Tate Capital Partners (venture capital, 3600 Minnesota Drive, Minneapolis, Minnesota 55435) since 2002; President of ADC Telecommunications, Inc. during 2001; Senior Vice President of ADC Telecommunications, Inc. from 1991 to 2001. Mr. Davis has been a director of Flexsteel since 1999. Mr. Davis also serves as a director of Automated Quality Technologies, Inc. (a manufacturer of non-contact measurement equipment), Infrared Solutions (a manufacturer of specialty camera equipment) and Parlex Corp. (a manufacturer of flexible printed circuits). Age 56.
Robert E. Deignan	Partner of Baker & McKenzie (law firm, One Prudential Plaza, 130 East Randolph Drive, Chicago, Illinois 60601) since 1972. Mr. Deignan has been a Director of Flexsteel since 2001. Age 64.

Name	Present Principal Occupation or Employment; Material Positions Held During the past Five Years
Thomas E. Holloran	Professor Emeritus, School of Business, University of St. Thomas (1000 LaSalle Avenue, Minneapolis, Minnesota 55403) since 2001; Professor since 1985. Mr. Holloran has been a director of Flexsteel since 1971. Mr. Holloran serves as a director of the Center for Diagnostic Imaging. Mr. Holloran previously served as a director of Medtronic, Inc. from 1960 through 2000, ADC Telecommunications, Inc. from 1985 through 2000, Malt-O-Meal Company from 1985 through 2000, MTS Systems Company from 1972 through 2000 and National City Bancorporation and National City Bank (Minneapolis, Minnesota) from 1989 through 2000. Age 73.
K. Bruce Lauritsen	Chief Executive Officer and President of Flexsteel Industries, Inc. since 1993. Mr. Lauritsen has been a director of Flexsteel since 1987. Mr. Lauritsen also serves as a director and the President of Churchill Acquisition Corp. Age 60.
Edward J. Monaghan	Chief Operating Officer and Executive Vice President of Flexsteel Industries, Inc. since 1993. Mr. Monaghan has been a director of Flexsteel since 1987. Mr. Monaghan also serves as a Vice President of Churchill Acquisition Corp. Age 64.
Eric S. Rangen	Vice President and Chief Financial Officer of Alliant Techsystems, Inc. (aerospace and defense products, 5050 Lincoln Drive, Edina, Minnesota 55436) since 2001; Partner of Deloitte & Touche LLP (accounting firm) from 1994 to 2000. Mr. Rangen has been a director of Flexsteel since 2002. Age 46.
James R. Richardson	Senior Vice President Marketing of Flexsteel Industries, Inc. since 1994. Mr. Richardson has been a director of Flexsteel since 1990. Mr. Richardson also serves as a Vice President of Churchill Acquisition Corp. Age 59.
Marvin M. Stern	Vice President, Sears-Roebuck Company (retailer) (retired). Mr. Stern has been a director of Flexsteel since 1998. Age 67.
Thomas D. Burkart	Senior Vice President of Vehicle Seating of Flexsteel Industries, Inc. since 1994. Age 60.
Ronald J. Klosterman	Vice President Finance / Chief Financial Officer & Secretary of Flexsteel Industries, Inc. since 1995. Mr. Klosterman also serves as the Treasurer and Secretary of Churchill Acquisition Corp. Age 55.

2. Directors and Executive Officers of the Purchaser. The following table sets forth the name, present principal occupation of employment and material occupations, positions, offices or employments for the past five years of each director and executive officer of the Purchaser. Unless otherwise indicated, the current business address of each person is 3400 Jackson Street, Dubuque, Iowa 52004-0877. Each director and officer is a citizen of the United States of America.

Name	Present Principal Occupation or Employment; Material Positions Held During the past Five Years
Jeffrey T. Bertsch	Vice President Corporate Services of Flexsteel Industries, Inc. since 1989. Mr. Bertsch has been a director of Churchill Acquisition Corp. since its inception in August 2003. Mr. Bertsch also serves as a director of Flexsteel, a director of American Trust and Savings Bank (Dubuque, Iowa) and a Trustee of the University of Dubuque. Age 40.
Patrick M. Crahan	Vice President, Dubuque Upholstering Division, of Flexsteel Industries, Inc. since 1989. Mr. Crahan has been a director of Churchill Acquisition Corp. since its inception in August 2003. Mr. Crahan also serves as a director of Flexsteel, a director of American Trust and Savings Bank (Dubuque, Iowa) and a Trustee of the University of Dubuque. Age 55.
K. Bruce Lauritsen	Chief Executive Officer and President of Flexsteel Industries, Inc. since 1993. Mr. Lauritsen has been a director and the President of Churchill Acquisition Corp. since its formation in August 2003. Mr. Lauritsen also serves as a director of Flexsteel. Age 60.
Edward J. Monaghan	Chief Operating Officer and Executive Vice President of Flexsteel Industries, Inc. since 1993. Mr. Monaghan has been a Vice President of Churchill Acquisition Corp. since its formation in August 2003. Mr. Monaghan also serves as a director of Flexsteel. Age 64.
James R. Richardson	Senior Vice President Marketing of Flexsteel Industries, Inc. since 1994. Mr. Richardson has been a Vice President of Churchill Acquisition Corp. since its formation in August 2003. Mr. Richardson also serves as a director of Flexsteel. Age 59.
Ronald J. Klosterman	Vice President Finance / Chief Financial Officer & Secretary of Flexsteel Industries, Inc. since 1995. Mr. Klosterman has been the Treasurer and Secretary of Churchill Acquisition Corp. since its formation in August 2003. Age 55.

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Manually signed facsimiles of the Letter of Transmittal, properly completed, will be accepted. The Letter of Transmittal and certificates evidencing Shares and any other required, documents should be sent or delivered by each stockholder or his broker, dealer, commercial bank, trust company or other nominee to the Depositary at one of its addresses set forth below:

The Depositary for the Offer is:

American Stock Transfer and Trust Company

By Facsimile Transmission
(for Eligible Institutions only):
(718) 236-2641

Confirm by Telephone:
(800) 937-5449

By Mail:
American Stock Transfer and Trust Company
P.O. Box 2042
New York, NY 10272-2042

By Overnight Courier:
American Stock Transfer and Trust Company
Operations Center
6201 15th Avenue
Brooklyn, NY 11219

By Hand:
American Stock Transfer and Trust Company
59 Maiden Lane
New York, NY 10038

Other Information:

Questions or requests for assistance may be directed to the Information Agent at the address and telephone number listed below. Additional copies of this Offer to Purchase, the Letter of Transmittal and the Notice of Guaranteed Delivery may be obtained from the Information Agent. Stockholders may also contact brokers, dealers, commercial banks or trust companies for assistance concerning the Offer.

The Information Agent for the Offer is:

Innisfree
M&A Incorporated

501 Madison Avenue, 20th Floor
New York, New York 10022
Stockholders Call Toll-Free: (888) 750-5834
Banks and Brokerage Firms Call Collect: (212) 750-5833

Letter of Transmittal
to Tender Shares of Common Stock

of

DMI Furniture, Inc.

Pursuant to the Offer to Purchase dated August 20, 2003

by

Churchill Acquisition Corp.

a wholly owned subsidiary of

Flexsteel Industries, Inc.

THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON WEDNESDAY, SEPTEMBER 17, 2003, UNLESS THE OFFER IS EXTENDED.

The Depositary for the Offer is:

American Stock Transfer and Trust Company

By Mail:
American Stock Transfer and
Trust Company
P.O. Box 2042
New York, NY 10272-2042

By Overnight Courier:
American Stock Transfer and
Trust Company
Operations Center
6201 15th Avenue
Brooklyn, NY 11219

By Hand:
American Stock Transfer and
Trust Company
59 Maiden Lane
New York, NY 10038

By Facsimile Transmission:
(for eligible institutions only)
(718) 236-2641

Confirm Facsimile By Telephone:
(800) 937-5449

DELIVERY OF THIS LETTER OF TRANSMITTAL TO AN ADDRESS OTHER THAN AS SET FORTH ABOVE, OR TRANSMISSION OF INSTRUCTIONS VIA FACSIMILE TO A NUMBER OTHER THAN AS SET FORTH ABOVE, WILL NOT CONSTITUTE A VALID DELIVERY TO THE DEPOSITARY. YOU MUST SIGN THIS LETTER OF TRANSMITTAL IN THE APPROPRIATE SPACE PROVIDED THEREFOR BELOW, WITH SIGNATURE GUARANTEE IF REQUIRED, AND COMPLETE THE SUBSTITUTE FORM W-9 SET FORTH BELOW.

THE INSTRUCTIONS CONTAINED WITHIN THIS LETTER OF TRANSMITTAL SHOULD BE READ CAREFULLY BEFORE THIS LETTER OF TRANSMITTAL IS COMPLETED.

DESCRIPTION OF SHARES TENDERED

Name(s) and Address(es) of Registered Holder(s) (Please fill in, if blank, exactly as name(s) appear(s) on Share Certificate(s))	Share Certificate(s) and Share(s) Tendered (Please attach additional signed list, if necessary)		
	Share Certificate Number(s)(1)	Total Number of Shares Represented by Certificate(s)(1)	Number of Shares Tendered(2)
	Total Shares Tendered		

(1) Need not be completed by stockholders who deliver Shares by book-entry transfer.
(2) Unless otherwise indicated, all Shares represented by certificates delivered to the Depositary will be deemed to have been tendered. See Instruction 4.

This Letter of Transmittal is to be used by stockholders of DMI Furniture, Inc. (the "Company") if certificates for Shares (as defined below) are to be forwarded herewith or, unless an Agent's Message (as defined in Section 3 of the Offer to Purchase) is utilized, if delivery of Shares is to be made by book-entry transfer to an account maintained by the Depositary at the Book-Entry Transfer Facility (as defined in Section 2 of the Offer to Purchase and pursuant to the procedures set forth in Section 3 thereof).

Stockholders whose certificates for such Shares (the "Share Certificates") are not immediately available, or who cannot complete the procedure for book-entry transfer on a timely basis, or who cannot deliver all other required documents to the Depositary prior to the Expiration Date (as defined in Section 1 of the Offer to Purchase), must tender their Shares according to the guaranteed delivery procedure set forth in Section 3 of the Offer to Purchase in order to participate in the Offer. See Instruction 2. DELIVERY OF DOCUMENTS TO THE BOOK-ENTRY TRANSFER FACILITY WILL NOT CONSTITUTE DELIVERY TO THE DEPOSITARY.

TENDER OF SHARES

☐ **CHECK HERE IF TENDERED SHARES ARE BEING DELIVERED BY BOOK-ENTRY TRANSFER TO THE DEPOSITARY'S ACCOUNT AT THE BOOK-ENTRY TRANSFER FACILITY AND COMPLETE THE FOLLOWING (ONLY PARTICIPANTS IN THE BOOK-ENTRY TRANSFER FACILITY MAY DELIVER SHARES BY BOOK-ENTRY TRANSFER):**

Name of Tendering Institution:_____

Account Number:_____

Transaction Code Number:_____

☐ **CHECK HERE IF TENDERED SHARES ARE BEING DELIVERED PURSUANT TO A NOTICE OF GUARANTEED DELIVERY PREVIOUSLY SENT TO THE DEPOSITARY AND COMPLETE THE FOLLOWING:**

Name(s) of Registered Holder(s):_____

Window Ticket Number (if any):_____

Date of Execution of Notice of Guaranteed Delivery:_____

Name of Eligible Institution that Guaranteed Delivery:_____

If delivery is by book-entry transfer, provide the following:

Account Number:_____

Transaction Code Number:_____

NOTE: SIGNATURES MUST BE PROVIDED BELOW

PLEASE READ THE INSTRUCTIONS SET FORTH IN THIS LETTER OF TRANSMITTAL CAREFULLY

Ladies and Gentlemen:

The undersigned hereby tenders to Churchill Acquisition Corp., a Delaware corporation (the "Purchaser") and a wholly owned subsidiary of Flexsteel Industries, Inc., a Minnesota corporation ("Flexsteel"), the above-described shares of common stock, par value $0.10 per share (the "Shares"), of DMI Furniture, Inc., a Delaware corporation (the "Company"), pursuant to the Purchaser's offer to purchase all outstanding Shares, at a purchase price of $3.30 per Share, net to the seller in cash (the "Offer Price"), without interest thereon, upon the terms and subject to the conditions set forth in the Offer to Purchase dated August 20, 2003, receipt of which is hereby acknowledged, and in this Letter of Transmittal (which together with any amendments or supplements thereto or hereto, collectively constitute the "Offer").

Upon the terms and subject to the conditions of the Offer (and if the Offer is extended or amended, the terms of any such extension or amendment), and effective upon acceptance for payment of the Shares tendered herewith in accordance with the terms of the Offer, the undersigned hereby sells, assigns and transfers to or upon the order of the Purchaser all right, title and interest in and to all of the Shares that are being tendered hereby (and any and all dividends, distributions, rights, other Shares or other securities issued or issuable in respect thereof on or after the date hereof (collectively, "Distributions")) and irrevocably constitutes and appoints American Stock Transfer and Trust Company (the "Depositary") the true and lawful agent and attorney-in-fact of the undersigned with respect to such Shares (and all Distributions), with full power of substitution (such power of attorney being deemed to be an irrevocable power coupled with an interest), to (i) deliver certificates for such Shares (and any and all Distributions) or transfer ownership of such Shares (and any and all Distributions) on the account books maintained by the Book-Entry Transfer Facility, together, in any such case, with all accompanying evidences of transfer and authenticity, to or upon the order of the Purchaser, (ii) present such Shares (and any and all Distributions) for transfer on the books of the Company, and (iii) receive all benefits and otherwise exercise all rights of beneficial ownership of such Shares (and any and all Distributions), all in accordance with the terms of the Offer.

By executing this Letter of Transmittal, the undersigned hereby irrevocably appoints K. Bruce Lauritsen, Edward J. Monaghan, James R. Richardson and Ronald J. Klosterman, and each of them, and any other designees of the Purchaser, the attorneys-in-fact and proxies of the undersigned, each with full power of substitution, to vote at any annual or special meeting of the Company's stockholders or any adjournment or postponement thereof or otherwise in such manner as each such attorney-in-fact and proxy or his or her substitute shall in his or her sole discretion deem proper with respect to, to execute any written consent concerning any matter as each such attorney-in-fact and proxy or his or her substitute shall in his or her sole discretion deem proper with respect to, and to otherwise act as each such attorney-in-fact and proxy or his or her substitute shall in his or her sole discretion deem proper with respect to, all of the Shares (and any and all Distributions) tendered hereby and accepted for payment by the Purchaser. This appointment will be effective if and when, and only to the extent that, the Purchaser accepts such Shares for payment pursuant to the Offer. This power of attorney and proxy are irrevocable and are granted in consideration of the acceptance for payment of such Shares in accordance with the terms of the Offer. Such acceptance for payment shall, without further action, revoke any prior powers of attorney and proxies granted by the undersigned at any time with respect to such Shares (and any and all Distributions), and no subsequent powers of attorney, proxies, consents or revocations may be given by the undersigned with respect thereto (and, if given, will not be deemed effective). The Purchaser reserves the right to require that, in order for the Shares to be deemed validly tendered, immediately upon the Purchaser's acceptance for payment of such Shares, the Purchaser must be able to exercise full voting, consent and other rights with respect to such Shares (and any and all Distributions), including voting at any meeting of the Company's stockholders.

The undersigned hereby represents and warrants that the undersigned has full power and authority to tender, sell, assign and transfer the Shares tendered hereby and all Distributions and that, when the same are accepted for payment by the Purchaser, the Purchaser will acquire good, marketable and unencumbered title thereto and to all Distributions, free and clear of all liens, restrictions, charges and encumbrances and the same will not be subject to any adverse claims. The undersigned will, upon request, execute and deliver any additional documents deemed by the Depositary or the Purchaser to be necessary or desirable to complete the sale, assignment and transfer of the Shares tendered hereby and all Distributions. In addition, the undersigned shall remit and transfer promptly to the Depositary for the account of the Purchaser all Distributions in respect of the Shares tendered hereby, accompanied by appropriate documentation of transfer, and, pending such remittance and transfer or appropriate assurance thereof, the Purchaser shall be entitled to all rights and privileges as owner of each such Distribution and may withhold the entire purchase price of the Shares tendered hereby or deduct from such purchase price, the amount or value of such Distribution as determined by the Purchaser in its sole discretion.

All authority herein conferred or agreed to be conferred shall survive the death or incapacity of the undersigned, and any obligation of the undersigned hereunder shall be binding upon the heirs, executors, administrators, personal representatives, trustees in bankruptcy, successors and assigns of the undersigned. Except as stated in the Offer to Purchase, this tender is irrevocable.

The undersigned understands that the valid tender of the Shares pursuant to any one of the procedures described in Section 3 of the Offer to Purchase and in the Instructions hereto will constitute a binding agreement between the undersigned and the Purchaser upon the terms and subject to the conditions of the Offer (and if the Offer is extended or amended, the terms or conditions of any such extension or amendment). Without limiting the foregoing, if the price to be paid in the Offer is amended in accordance with the Merger Agreement (as defined in the Offer to Purchase), the price to be paid to the undersigned will be the amended price notwithstanding the fact that a different price is stated in this Letter of Transmittal. The undersigned recognizes that under certain circumstances set forth in the Offer to Purchase, the Purchaser may not be required to accept for payment any of the Shares tendered hereby.

Unless otherwise indicated under "Special Payment Instructions," please issue the check for the purchase price of all of the Shares purchased and/or return any Share Certificates not tendered or accepted for payment in the name(s) of the registered holder(s) appearing above under "Description of Shares Tendered." Similarly, unless otherwise indicated under "Special Delivery Instructions," please mail the check for the purchase price of all of the Shares purchased and/or return any Share Certificates not tendered or not accepted for payment (and any accompanying documents, as appropriate) to the address(es) of the registered holder(s) appearing above under "Description of Shares Tendered." In the event that the boxes entitled "Special Payment Instructions" and "Special Delivery Instructions" are both completed, please issue the check for the purchase price of all Shares purchased and/or return any Share Certificates not tendered or not accepted for payment (and any accompanying documents, as appropriate) in the name(s) of, and deliver such check and/or return any such certificates (and any accompanying documents, as appropriate) to, the person(s) so indicated. Unless otherwise indicated herein in the box entitled "Special Payment Instructions," please credit any Shares tendered herewith by book-entry transfer that are not accepted for payment by crediting the account at the Book-Entry Transfer Facility designated above. The undersigned recognizes that the Purchaser has no obligation, pursuant to the "Special Payment Instructions," to transfer any Shares from the name of the registered holder thereof if the Purchaser does not accept for payment any of the Shares so tendered.

SPECIAL PAYMENT INSTRUCTIONS
(See Instructions 1, 5, 6 and 7)

To be completed ONLY if the check for the purchase price of Shares accepted for payment and/or Share Certificates not tendered or accepted for payment are to be issued in the name of someone other than the undersigned.

Issue: ☐ Check
☐ Certificate(s) to

Name _____
(Please Print)

Address _____

_____
(Include Zip Code)

_____
(Tax Identification or Social Security Number)

(Also complete Substitute Form W-9 below)

Account Number: _____

SPECIAL DELIVERY INSTRUCTIONS
(See Instructions 1, 5, 6 and 7)

To be completed ONLY if the check for the purchase price of Shares accepted for payment and/or Share Certificates not tendered or accepted for payment are to be sent to someone other than the undersigned or to the undersigned at an address other than that shown under "Description of Shares Tendered."

Mail: ☐ Check
☐ Certificate(s) to

Name _____
(Please Print)

Address _____

_____
(Include Zip Code)

_____
(Taxpayer Identification or Social Security Number)

(Also complete Substitute Form W-9 below)

IMPORTANT
STOCKHOLDER: SIGN HERE
(Please complete Substitute Form W-9 included herein)

_____

_____

(Signature(s) of Owner(s))

Name(s) _____

_____

Capacity (Full Title) _____

(See Instructions)

Address _____

_____

_____

_____

(Include Zip Code)

Area Code and Telephone Number _____

Taxpayer Identification or

Social Security Number _____

(See Instruction 8)

Dated: _____, 2003

(Must be signed by the registered holder(s) exactly as name(s) appear(s) on stock certificate(s) or on a security position listing or by the person(s) authorized to become registered holder(s) by certificates and documents transmitted herewith. If signature is by a trustee, executor, administrator, guardian, attorney-in-fact, officer of a corporation or other person acting in a fiduciary or representative capacity, please set forth full title and see Instruction 5.)

GUARANTEE OF SIGNATURE(S)
(If required—See Instructions 1 and 5)

Authorized Signature(s) _____

Name _____

Name of Firm _____

Address _____

(Include Zip Code)

Area Code and Telephone Number _____

Dated: _____, 2003

INSTRUCTIONS

FORMING PART OF THE TERMS AND CONDITIONS OF THE OFFER

1. *Guarantee of Signatures*. No signature guarantee is required on this Letter of Transmittal (a) if this Letter of Transmittal is signed by the registered holder(s) (which term, for purposes of this Section, includes any participant in the Book-Entry Transfer Facility's systems whose name appears on a security position listing as the owner of the Shares) of Shares tendered herewith, unless such registered holder(s) has completed either the box entitled "Special Payment Instructions" or the box entitled "Special Delivery Instructions" on the Letter of Transmittal or (b) if Shares are tendered for the account of a financial institution (including most commercial banks, savings and loan associations and brokerage houses) that is a participant in the Security Transfer Agents Medallion Program or by any other "eligible guarantor institution," as such term is defined in Rule 17Ad-15 under the Exchange Act (each, an "Eligible Institution"). In all other cases, all signatures on this Letter of Transmittal must be guaranteed by an Eligible Institution. See Instruction 5.

2. *Requirements of Tender*. This Letter of Transmittal is to be completed by stockholders if certificates are to be forwarded herewith or, unless an Agent's Message is utilized, if tenders are to be made pursuant to the procedure for tender by book-entry transfer set forth in Section 3 of the Offer to Purchase. Share Certificates evidencing tendered Shares, or timely confirmation of a book-entry transfer (a "Book-Entry Confirmation") of Shares into the Depositary's account at the Book-Entry Transfer Facility, as well as this Letter of Transmittal (or a manually signed facsimile hereof), properly completed and duly executed, with any required signature guarantees, or an Agent's Message in connection with a book-entry transfer, and any other documents required by this Letter of Transmittal, must be received by the Depositary at one of its addresses set forth herein prior to the Expiration Date (as defined in Section 1 of the Offer to Purchase). Stockholders whose Share Certificates are not immediately available, or who cannot complete the procedure for delivery by book-entry transfer on a timely basis or who cannot deliver all other required documents to the Depositary prior to the Expiration Date, may tender their Shares by properly completing and duly executing a Notice of Guaranteed Delivery pursuant to the guaranteed delivery procedure set forth in Section 3 of the Offer to Purchase. Pursuant to such procedure: (i) such tender must be made by or through an Eligible Institution; (ii) a properly completed and duly executed Notice of Guaranteed Delivery, substantially in the form made available by the Purchaser, must be received by the Depositary prior to the Expiration Date; and (iii) the Share Certificates (or a Book-Entry Confirmation) evidencing all tendered Shares, in proper form for transfer, in each case together with the Letter of Transmittal (or a manually signed facsimile thereof), properly completed and duly executed, with any required signature guarantees (or, in the case of a book-entry delivery, an Agent's Message) and any other documents required by this Letter of Transmittal, must be received by the Depositary within three Nasdaq Stock Market trading days after the date of execution of such Notice of the Guaranteed Delivery. If Share Certificates are forwarded separately to the Depositary, a properly completed and duly executed Letter of Transmittal must accompany each such delivery.

THE METHOD OF DELIVERY OF THIS LETTER OF TRANSMITTAL, SHARE CERTIFICATES AND ALL OTHER REQUIRED DOCUMENTS, INCLUDING DELIVERY THROUGH THE BOOK-ENTRY TRANSFER FACILITY, IS AT THE OPTION AND THE RISK OF THE TENDERING STOCKHOLDER AND THE DELIVERY WILL BE DEEMED MADE ONLY WHEN ACTUALLY RECEIVED BY THE DEPOSITARY (INCLUDING, IN THE CASE OF BOOK-ENTRY TRANSFER, BY BOOK-ENTRY CONFIRMATION). IF DELIVERY IS BY MAIL, REGISTERED MAIL WITH RETURN RECEIPT REQUESTED, PROPERLY INSURED, IS RECOMMENDED. IN ALL CASES, SUFFICIENT TIME SHOULD BE ALLOWED TO ENSURE TIMELY DELIVERY.

No alternative, conditional or contingent tenders will be accepted and no fractional Shares will be purchased. All tendering stockholders, by execution of this Letter of Transmittal (or a manually signed facsimile hereof), waive any right to receive any notice of the acceptance of their Shares for payment.

3. *Inadequate Space*. If the space provided herein is inadequate, the certificate numbers and/or the number of Shares and any other required information should be listed on a separate signed schedule attached hereto.

4. *Partial Tenders (not applicable to stockholders who tender by book-entry transfer)*. If fewer than all of the Shares evidenced by any Share Certificate are to be tendered, fill in the number of Shares that are to be tendered in the box entitled

"Number of Shares Tendered." In this case, new Share Certificates for the Shares that were evidenced by your old Share Certificates, but were not tendered by you, will be sent to you, unless otherwise provided in the appropriate box on this Letter of Transmittal, as soon as practicable after the Expiration Date. All Shares represented by Share Certificates delivered to the Depositary will be deemed to have been tendered unless indicated.

5. *Signatures on Letter of Transmittal, Stock Powers and Endorsements.* If this Letter of Transmittal is signed by the registered holder(s) of the Shares tendered hereby, the signature(s) must correspond with the name(s) as written on the face of the Share Certificate(s) without alteration, enlargement or any change whatsoever.

If any of the Shares tendered hereby are held of record by two or more joint owners, all such owners must sign this Letter of Transmittal.

If any of the tendered Shares are registered in different names on several Share Certificates, it will be necessary to complete, sign and submit as many separate Letters of Transmittal as there are different registrations.

If this Letter of Transmittal or any Share Certificates or stock powers are signed by a trustee, executor, administrator, guardian, attorney-in-fact, officer of a corporation or other person acting in a fiduciary or representative capacity, such person should so indicate when signing, and proper evidence satisfactory to the Purchaser of the authority of such person so to act must be submitted.

If this Letter of Transmittal is signed by the registered holder(s) of the Shares listed and transmitted hereby, no endorsements of Share Certificates or separate stock powers are required unless payment is to be made or Share Certificate(s) not tendered or not accepted for payment are to be issued in the name of a person other than the registered holder(s). Signatures on any such Share Certificates or stock powers must be guaranteed by an Eligible Institution.

If this Letter of Transmittal is signed by a person other than the registered holder(s) of the Share Certificate(s) listed and transmitted hereby, the Share Certificate(s) must be endorsed or accompanied by appropriate stock powers, in either case signed exactly as the name(s) of the registered holder(s) appear(s) on the Share Certificate(s). Signature(s) on any such Share Certificates or stock powers must be guaranteed by an Eligible Institution.

6. *Stock Transfer Taxes*. Except as otherwise provided in this Instruction 6, the Purchaser will pay all stock transfer taxes with respect to the transfer and sale of any Shares to it or its order pursuant to the Offer. If, however, payment of the purchase price is to be made to, or if certificate(s) for Shares not tendered or not accepted for payment are to be registered in the name of, any person other than the registered holder(s), or if tendered certificate(s) are registered in the name of any person other than the person(s) signing this Letter of Transmittal, the amount of any stock transfer taxes (whether imposed on the registered holder(s) or such other person(s)) payable on account of the transfer to such other person will be deducted from the purchase price of such Shares purchased unless evidence satisfactory to the Purchaser of the payment of such taxes, or exemption therefrom, is submitted.

Except as provided in this Instruction 6, it will not be necessary for transfer tax stamps to be affixed to the Share Certificate(s) evidencing the Shares tendered hereby.

7. *Special Payment and Delivery Instructions*. If a check is to be issued in the name of, and/or Share Certificates for Shares not tendered or not accepted for payment are to be issued or returned to, a person other than the signer of this Letter of Transmittal or if a check and/or such certificates are to be returned to a person other than the person(s) signing this Letter of Transmittal or to an address other than that shown in this Letter of Transmittal, the appropriate boxes on this Letter of Transmittal must be completed.

8. *Backup Withholding; Substitute Form W-9; Forms W-8*. Under the federal income tax laws, the Depositary will be required to withhold 28% of the payment made to certain tendering stockholders. In order to avoid such backup withholding, a tendering stockholder must provide the Depositary with such stockholder's correct taxpayer identification number and certify under penalties of perjury that such taxpayer identification number is correct and such stockholder is not subject to

such backup withholding by completing the Substitute Form W-9 provided with the Letter of Transmittal. If the Depositary is not provided with the correct taxpayer identification number on a properly completed Substitute Form W-9, the stockholder may be subject to a $50 penalty imposed by the Internal Revenue Service. For further information concerning backup withholding and instructions for completing the Substitute Form W-9 (including how to obtain a taxpayer identification number and how to complete the Substitute Form W-9 if Shares are held in more than one name), stockholders should consult the enclosed "Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9."

Certain stockholders (including, among others, all corporations and certain foreign persons) are not subject to these backup withholding requirements. In order to satisfy the Depositary that a stockholder is a foreign person that qualifies as an exempt recipient, such person must submit a statement, signed under penalties of perjury, certifying to that person's exempt status, on an appropriate completed Form W-8 (Form W-8BEN, Form W-8ECI, Form W-8EXP or Form W-8IMY) or any successor form. Such stockholders should consult a tax advisor to determine which Form W-8 is appropriate. Such forms can be obtained from the Depositary or at the Internal Revenue Service website at http://www.irs.gov.

A stockholder's failure to complete the Substitute Form W-9 or appropriate Form W-8 will not, by itself, cause Shares to be deemed invalidly tendered, but may require the Depositary to withhold 28% of the amount of any payments made to such stockholder in consideration for the Shares. Backup withholding is not an additional federal income tax. Rather, the federal income tax liability of a person subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund may be obtained provided that the required information is furnished to the Internal Revenue Service.

NOTE: FAILURE TO COMPLETE AND RETURN THE SUBSTITUTE FORM W-9 OR AN APPROPRIATE FORM W-8 MAY RESULT IN BACKUP WITHHOLDING OF 28% OF THE PAYMENT MADE IN CONSIDERATION FOR SHARES.

9. *Requests for Assistance or Additional Copies*. Questions and requests for assistance or additional copies of the Offer to Purchase, this Letter of Transmittal, the Notice of Guaranteed Delivery, IRS Form W-8 and the Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9 may be directed to the Information Agent at the address and phone number set forth below, or from brokers, dealers, commercial banks or trust companies.

10. *Lost, Destroyed or Stolen Certificates*. If any certificate representing Shares has been lost, destroyed or stolen, the stockholder should promptly notify American Stock Transfer and Trust Company, in its capacity as transfer agent for the Shares (toll-free telephone number: (800) 937-5449). The stockholder will then be instructed as to the steps that must be taken in order to replace the certificate. **This Letter of Transmittal and related documents cannot be processed until the procedures for replacing lost or destroyed certificates have been followed.**

IMPORTANT: THIS LETTER OF TRANSMITTAL (OR A MANUALLY SIGNED FACSIMILE HEREOF) TOGETHER WITH ANY REQUIRED SIGNATURE GUARANTEES, OR, IN THE CASE OF A BOOK-ENTRY TRANSFER, AN AGENT'S MESSAGE, AND ANY OTHER REQUIRED DOCUMENTS, MUST BE RECEIVED BY THE DEPOSITARY PRIOR TO THE EXPIRATION DATE AND EITHER CERTIFICATES FOR TENDERED SHARES MUST BE RECEIVED BY THE DEPOSITARY OR SHARES MUST BE DELIVERED PURSUANT TO THE PROCEDURES FOR BOOK-ENTRY TRANSFER, IN EACH CASE PRIOR TO THE EXPIRATION DATE, OR THE TENDERING STOCKHOLDER MUST COMPLY WITH THE PROCEDURES FOR GUARANTEED DELIVERY.

IMPORTANT TAX INFORMATION

Under federal income tax law, a stockholder surrendering Shares must, unless an exemption applies, provide the Depositary (as payor) with his correct taxpayer identification number on IRS Form W-9 or on the Substitute Form W-9 included in this Letter of Transmittal. If the stockholder is an individual, his taxpayer identification number is his social security number. If the correct taxpayer identification number is not provided, the stockholder may be subject to a $50 penalty imposed by the Internal Revenue Service and payments to the tendering stockholder (or other payee) pursuant to the Offer may be subject to backup withholding of 28% of all payments of the purchase price.

Certain stockholders (including, among others, corporations and certain foreign individuals and entities) may not be subject to backup withholding and reporting requirements. In order for an exempt foreign stockholder to avoid backup withholding, such person should complete, sign and submit an appropriate Form W-8 signed under penalties of perjury, attesting to his or her exempt status. A Form W-8 can be obtained from the Depositary. Exempt stockholders, other than foreign stockholders, should furnish their taxpayer identification number, write “Exempt” in Part 2 of the Substitute Form W-9 and sign, date and return the Substitute Form W-9 to the Depositary. See the enclosed “Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9” for additional instructions.

If backup withholding applies, the Depositary is required to withhold and pay over to the Internal Revenue Service 28% of any payment made to payee. Backup withholding is not an additional tax. Rather, the federal income tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If backup withholding results in an overpayment of taxes, a refund may be obtained from the Internal Revenue Service.

Purpose of Substitute Form W-9

To prevent backup withholding on payments that are made to a stockholder with respect to Shares purchased pursuant to the Offer, the stockholder is required to notify the Depositary of his correct taxpayer identification number by completing the Substitute Form W-9 included in this Letter of Transmittal certifying (1) that the taxpayer identification number provided on the Substitute Form W-9 is correct (or that such stockholder is awaiting a taxpayer identification number) and (2) that the stockholder is not subject to backup withholding because (i) the stockholder is exempt from backup withholding, (ii) the stockholder has not been notified by the Internal Revenue Service that the stockholder is subject to backup withholding as a result of a failure to report all interest and dividends or (iii) the Internal Revenue Service has notified the stockholder that the stockholder is no longer subject to backup withholding.

What Number to Give the Depositary

The stockholder is required to give the Depositary the taxpayer identification number, generally the social security number or employer identification number, of the record holder of the Shares tendered hereby. If the Shares are in more than one name or are not in the name of the actual owner, consult the enclosed “Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9” for additional guidance on which number to report. If the tendering stockholder has not been issued a taxpayer identification number and has applied for a number or intends to apply for a number in the near future, he or she should write “Applied For” in the space provided for the taxpayer identification number in Part 1, sign and date the Substitute Form W-9 and sign and date the Certificate of Awaiting Taxpayer Identification Number, which appears in a separate box below the Substitute Form W-9. If “Applied For” is written in Part 1 and the Depositary is not provided with a taxpayer identification number by the time of payment, the Depositary will withhold 28% of all payments of the purchase price until a taxpayer identification number is provided to the Depositary.

SUBSTITUTE

FORM W-9

Department of the Treasury
Internal Revenue Service

Payer's Request for Taxpayer Identification Number (TIN) and Certification

PAYER'S NAME: AMERICAN STOCK TRANSFER AND TRUST COMPANY

Part 1 — PLEASE PROVIDE YOUR TIN IN THE BOX ON THE RIGHT AND CERTIFY BY SIGNING AND DATING BELOW (IF AWAITING TIN, WRITE "APPLIED FOR" AND CHECK THE BOX IN PART 4)

Social Security Number

OR

Employer Identification Number

Part 2 — FOR PAYEES EXEMPT FROM BACKUP WITHHOLDING (See Page 2 of enclosed Guidelines)

Part 3 — Certification — Under penalties of perjury, I certify that:

(1) The number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me),

(2) I am not subject to backup withholding because (a) I am exempt from backup withholding, (b) I have not been notified by the Internal Revenue Service (the "IRS") that I am subject to backup withholding as a result of failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding, and

(3) I am a U.S. person (including a U.S. resident alien).

Part 4 —

Awaiting TIN ☐

Part 5 —

Check appropriate box:

☐ Individual/Sole Proprietor

☐ Corporation

☐ Partnership

☐ Other: _____

Certification instructions — You must cross out item (2) in Part 3 above if you have been notified by the IRS that you are currently subject to backup withholding because of underreporting interest or dividends on your tax return.

SIGNATURE _____ DATE _____

NAME _____

BUSINESS NAME _____

ADDRESS _____

CITY _____ STATE _____ ZIP CODE _____

YOU MUST COMPLETE THE FOLLOWING CERTIFICATE IF YOU CHECK THE BOX IN PART 4 OF SUBSTITUTE FORM W-9

PAYER'S NAME: AMERICAN STOCK TRANSFER AND TRUST COMPANY

CERTIFICATE OF AWAITING TAXPAYER IDENTIFICATION NUMBER

I certify under penalties of perjury that a taxpayer identification number has not been issued to me, and either (a) I have mailed or delivered an application to receive a taxpayer identification number to the appropriate Internal Revenue Service Center or Social Security Administration Office or (b) I intend to mail or deliver an application in the near future. I understand that if I do not provide a taxpayer identification number within sixty (60) days, 28% of all reportable payments made to me thereafter will be withheld until I provide such a number.

SIGNATURE DATE

NOTE: FAILURE TO COMPLETE AND RETURN THIS FORM MAY RESULT IN BACKUP WITHHOLDING OF 28% OF ANY PAYMENTS MADE TO YOU IN CONSIDERATION FOR YOUR SHARES. PLEASE REVIEW THE ENCLOSED "GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION NUMBER ON SUBSTITUTE FORM W-9" FOR ADDITIONAL DETAILS.

MANUALLY SIGNED FACSIMILE COPIES OF THE LETTER OF TRANSMITTAL WILL BE ACCEPTED. THE LETTER OF TRANSMITTAL, CERTIFICATES FOR SHARES AND ANY OTHER REQUIRED DOCUMENTS SHOULD BE SENT OR DELIVERED BY EACH STOCKHOLDER OF THE COMPANY OR SUCH STOCKHOLDER'S BROKER, DEALER, COMMERCIAL BANK, TRUST COMPANY OR OTHER NOMINEE TO THE DEPOSITARY AT ONE OF ITS ADDRESSES SET FORTH ON THE FIRST PAGE.

Questions and requests for assistance or for additional copies of the Offer to Purchase, the Letter of Transmittal, the Notice of Guaranteed Delivery and copies other tender offer materials may be directed to the Information Agent at its telephone number and location listed below, and copies will be furnished promptly at the Purchaser's expense. You may also contact your broker, dealer, commercial bank, trust company or other nominee for assistance concerning the Offer.

The Information Agent for the Offer is:

501 Madison Avenue, 20th Floor
New York, New York 10022
Stockholders Call Toll-Free: (888) 750-5834
Banks and Brokerage Firms Call Collect: (212) 750-5833

Notice of Guaranteed Delivery for
Tender of Shares of Common Stock

of

DMI Furniture, Inc.

to

Churchill Acquisition Corp.

a wholly owned subsidiary of

Flexsteel Industries, Inc.

(Not to be used for signature guarantees)

THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON WEDNESDAY, SEPTEMBER 17, 2003, UNLESS THE OFFER IS EXTENDED.

This Notice of Guaranteed Delivery, or a form substantially equivalent hereto, must be used to accept the Offer (as defined below) if certificates for Shares (as defined below) are not immediately available, if the procedure for book-entry transfer cannot be completed on a timely basis, or if time will not permit all required documents to reach American Stock Transfer and Trust Company (the "Depositary") on or prior to the Expiration Date (as defined in Section 1 of the Offer to Purchase). This form may be delivered by hand, transmitted by facsimile transmission or mailed to the Depositary. See Section 3 of the Offer to Purchase.

The Depositary for the Offer is:

American Stock Transfer and Trust Company

BY MAIL:
American Stock Transfer and
Trust Company
P.O. Box 2042
New York, NY 10272-2042

BY OVERNIGHT COURIER:
American Stock Transfer and
Trust Company
Operations Center
6201 15th Avenue
Brooklyn, NY 11219

BY HAND:
American Stock Transfer and
Trust Company
59 Maiden Lane
New York, NY 10038

BY FACSIMILE TRANSMISSION:
(for eligible institutions only)
(718) 236-2641

CONFIRM FACSIMILE BY TELEPHONE:
(800) 937-5449

DELIVERY OF THIS NOTICE OF GUARANTEED DELIVERY TO AN ADDRESS OTHER THAN ONE SET FORTH ABOVE OR TRANSMISSION OF INSTRUCTIONS VIA FACSIMILE TO A NUMBER OTHER THAN THE FACSIMILE NUMBER SET FORTH ABOVE WILL NOT CONSTITUTE A VALID DELIVERY TO THE DEPOSITARY.

THIS NOTICE OF GUARANTEED DELIVERY TO THE DEPOSITARY IS NOT TO BE USED TO GUARANTEE SIGNATURES. IF A SIGNATURE ON A LETTER OF TRANSMITTAL IS REQUIRED TO BE GUARANTEED BY AN "ELIGIBLE INSTITUTION" (AS DEFINED IN THE OFFER TO PURCHASE) UNDER THE INSTRUCTIONS THERETO, SUCH SIGNATURE GUARANTEES MUST APPEAR IN THE APPLICABLE SPACE PROVIDED IN THE SIGNATURE BOX ON THE LETTER OF TRANSMITTAL.

The Eligible Institution that completes this form must communicate the guarantee to the Depositary and must deliver the Letter of Transmittal or an Agent's Message (as defined in the Offer to Purchase) and certificates for Shares to the Depositary within the time period shown herein. Failure to do so could result in a financial loss to such Eligible Institution.

THE GUARANTEE ON THE REVERSE SIDE MUST BE COMPLETED.

Ladies and Gentlemen:

The undersigned hereby tenders to Churchill Acquisition Corp., a Delaware corporation and a wholly owned subsidiary of Flexsteel Industries, Inc., a Minnesota corporation, upon the terms and subject to the conditions set forth in the Offer to Purchase dated August 20, 2003 (the "Offer to Purchase") and the related Letter of Transmittal (which, together with any amendments or supplements thereto, constitute the "Offer"), receipt of which is hereby acknowledged, the number of shares of common stock, par value $0.10 per share (the "Shares"), of DMI Furniture, Inc., a Delaware corporation (the "Company"), set forth below, pursuant to the guaranteed delivery procedures set forth in the Offer to Purchase.

Number of Shares Tendered: _____

Certificate No.(s) (if available):

_____

_____

☐ Check if securities will be tendered by book-entry transfer

Name of Tendering Institution:

_____

Account No.: _____

Dated: _____, 2003

Name(s) of Record Holder(s):

_____

_____

(Please print)

Address(es):

_____

_____

(Zip Code)

Area Code and Telephone No.(s):

_____

Signature(s)

_____

_____

GUARANTEE
(Not to be used for signature guarantee)

The undersigned, a firm that is a participant in the Securities Transfer Agents Medallion Program, or an "eligible guarantor institution" (as such term is defined in Rule 17Ad-15 under the Securities Exchange Act of 1934, as amended), hereby guarantees to deliver to the Depositary either the certificates evidencing all tendered Shares, in proper form for transfer, or to deliver Shares pursuant to the procedure for book-entry transfer into the Depositary's account at The Depository Trust Company, in either case together with the Letter of Transmittal (or a manually signed facsimile thereof) properly completed and duly executed, with any required signature guarantees or an Agent's Message (as defined in the Offer to Purchase) in the case of a book-entry delivery, and any other required documents, all within three Nasdaq Stock Market trading days after the date hereof.

Name of Firm: _____

_____

(Authorized Signature)

Address: _____

_____

Zip Code

Title: _____

Name: _____

(Please type or print)

Area Code and Tel. No. _____

Date: _____, 2003

NOTE: DO NOT SEND CERTIFICATES FOR SHARES WITH THIS NOTICE. CERTIFICATES FOR SHARES SHOULD BE SENT WITH YOUR LETTER OF TRANSMITTAL.

Offer to Purchase for Cash
All Outstanding Shares of Common Stock
of

DMI Furniture, Inc.

at

$3.30 Net Per Share

by

Churchill Acquisition Corp.

a wholly owned subsidiary of

Flexsteel Industries, Inc.

THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON WEDNESDAY, SEPTEMBER 17, 2003, UNLESS THE OFFER IS EXTENDED.

August 20, 2003

To Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees:

Churchill Acquisition Corp., a Delaware corporation (the "Purchaser") and a wholly owned subsidiary of Flexsteel Industries, Inc., a Minnesota corporation ("Flexsteel"), has commenced an offer to purchase all outstanding shares of common stock, par value $0.10 per share (the "Shares"), of DMI Furniture, Inc., a Delaware corporation (the "Company"), at a purchase price of $3.30 per Share, net to the seller in cash, upon the terms and subject to the conditions set forth in the Offer to Purchase, dated August 20, 2003 (the "Offer to Purchase"), and the related Letter of Transmittal (which, together with any amendments or supplements thereto, collectively constitute the "Offer") enclosed herewith.

The Offer is conditioned upon, among other things, there being validly tendered and not withdrawn prior to the expiration date of the Offer a number of Shares that represents at least a majority of the then outstanding Shares on a fully-diluted basis. See Section 14 of the Offer to Purchase for additional conditions to the Offer.

Please furnish copies of the enclosed materials to those of your clients for whose accounts you hold Shares registered in your name or in the name of your nominee.

1. Offer to Purchase dated August 20, 2003;

2. Letter of Transmittal for your use in accepting the Offer and tendering Shares and for the information of your clients (manually signed facsimile copies of the Letter of Transmittal may be used to tender Shares);

3. Notice of Guaranteed Delivery to be used to accept the Offer if share certificates are not immediately available or if such certificates and all other required documents cannot be delivered to American Stock Transfer and Trust Company (the "Depositary"), or if the procedures for book-entry transfer cannot be completed on a timely basis;

4. A printed form of letter that may be sent to your clients for whose accounts you hold Shares registered in your name or in the name of your nominee, with space provided for obtaining such clients' instructions with regard to the Offer;

5. The letter to stockholders of the Company from Donald D. Dreher, President and Chief Executive Officer of the Company, accompanied by the Company's Solicitation/Recommendation Statement on Schedule 14D-9 filed with the Securities and Exchange Commission by the Company;

6. Guidelines of the Internal Revenue Service for Certification of Taxpayer Identification Number on Substitute Form W-9; and

7. Return envelope addressed to the Depositary.

Acting upon the unanimous recommendation of a special committee, comprised solely of independent directors, the Board of Directors of the Company unanimously (i) determined that the terms of the Offer and the

Merger are fair to and in the best interests of the stockholders of the Company, (ii) approved the Merger Agreement (as defined below) and the transactions contemplated thereby, including the Offer and the Merger (as defined below), and (iii) recommends that the Company's stockholders accept the Offer and tender their Shares pursuant to the Offer.

The Offer is being made pursuant to an Agreement and Plan of Merger, dated as of August 12, 2003 (the "Merger Agreement"), by and among Flexsteel, the Purchaser and the Company. The Merger Agreement provides for, among other things, the making of the Offer by the Purchaser, and further provides that, after the consummation of the Offer, the Purchaser will be merged with and into the Company (the "Merger") following the satisfaction or waiver of the conditions to the Merger set forth in the Merger Agreement. Following the Merger, the Company will continue as the surviving corporation, wholly owned by Flexsteel, and the separate corporate existence of the Purchaser will cease.

In order to take advantage of the Offer, (i) a duly executed and properly completed Letter of Transmittal and any required signature guarantees, or an Agent's Message (as defined in the Offer to Purchase) in connection with a book-entry delivery of Shares, and other required documents should be sent to the Depositary and (ii) certificates representing the tendered Shares should be delivered to the Depositary, or such Shares should be tendered by book-entry transfer into the Depositary's account maintained at the Book-Entry Transfer Facility (as described in the Offer to Purchase), all in accordance with the instructions set forth in the Letter of Transmittal and the Offer to Purchase.

Holders of Shares whose certificates for such Shares are not immediately available, who cannot complete the procedures for book-entry transfer on a timely basis, or who cannot deliver all other required documents to the Depositary prior to the Expiration Date (as defined in the Offer to Purchase) must tender their Shares according to the guaranteed delivery procedures set forth in Section 3 of the Offer to Purchase.

The Purchaser will not pay any fees or commissions to any broker or dealer or other person (other than the Depositary and the Information Agent as described in the Offer to Purchase) for soliciting tenders of Shares pursuant to the Offer. The Purchaser will, however, upon request, reimburse you for customary mailing and handling costs incurred by you in forwarding the enclosed materials to your clients. The Purchaser will pay or cause to be paid all stock transfer taxes applicable to its purchase of Shares pursuant to the Offer, except as otherwise provided in Instruction 6 of the Letter of Transmittal.

WE URGE YOU TO CONTACT YOUR CLIENTS AS PROMPTLY AS POSSIBLE. PLEASE NOTE THAT THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON WEDNESDAY, SEPTEMBER 17, 2003, UNLESS THE OFFER IS EXTENDED.

Any inquiries you may have with respect to the Offer should be addressed to, and additional copies of the enclosed materials may be obtained from, the Information Agent at the address and telephone number set forth on the back cover of the Offer to Purchase.

Very truly yours,

Flexsteel Industries, Inc.

NOTHING CONTAINED HEREIN OR IN THE ENCLOSED DOCUMENTS SHALL CONSTITUTE YOU OR ANY OTHER PERSON AS AN AGENT OF FLEXSTEEL, THE PURCHASER, THE COMPANY, THE INFORMATION AGENT, THE DEPOSITARY OR ANY AFFILIATE OF ANY OF THE FOREGOING OR AUTHORIZE YOU OR ANY OTHER PERSON TO USE ANY DOCUMENT OR MAKE ANY STATEMENT ON BEHALF OF ANY OF THEM IN CONNECTION WITH THE OFFER OTHER THAN THE DOCUMENTS ENCLOSED HEREWITH AND THE STATEMENTS CONTAINED THEREIN.

Offer to Purchase for Cash
All Outstanding Shares of Common Stock
of

DMI Furniture, Inc.

at

$3.30 Net Per Share

by

Churchill Acquisition Corp.

a wholly owned subsidiary of

Flexsteel Industries, Inc.

THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT,
NEW YORK CITY TIME, ON WEDNESDAY, SEPTEMBER 17, 2003, UNLESS THE OFFER IS EXTENDED.

To Our Clients:

Enclosed for your consideration are the Offer to Purchase, dated August 20, 2003 (the "Offer to Purchase"), and a related Letter of Transmittal (which, together with any amendments or supplements thereto, collectively constitute the "Offer") in connection with the offer by Churchill Acquisition Corp., a Delaware corporation (the "Purchaser") and a wholly owned subsidiary of Flexsteel Industries, Inc., a Minnesota corporation ("Flexsteel"), to purchase all outstanding shares of common stock, par value $0.10 per share (the "Shares"), of DMI Furniture, Inc., a Delaware corporation (the "Company"), at a purchase price of $3.30 per Share, net to the seller in cash, upon the terms and subject to the conditions set forth in the Offer to Purchase and in the Letter of Transmittal enclosed herewith. Also enclosed is the letter to stockholders of the Company from Donald D. Dreher, President and Chief Executive Officer of the Company, accompanied by the Company's Solicitation/Recommendation Statement on Schedule 14D-9 filed with the Securities and Exchange Commission by the Company.

We or our nominees are the holder of record of Shares for your account. A tender of such Shares can be made only by us as the holder of record and pursuant to your instructions. The enclosed Letter of Transmittal is furnished to you for your information only and cannot be used by you to tender Shares held by us for your account.

We request instructions as to whether you wish us to tender any or all of the Shares held by us for your account, upon the terms and subject to the conditions set forth in the Offer to Purchase. Your attention is invited to the following:

1. The offer price is $3.30 per Share, net to you in cash.
2. The Offer is being made for all outstanding Shares.
3. The Offer is being made pursuant to an Agreement and Plan of Merger, dated as of August 12, 2003 (the "Merger Agreement"), by and among Flexsteel, the Purchaser and the Company. The Merger Agreement provides, among other things, that the Purchaser will be merged with and into the Company (the "Merger") following the satisfaction or waiver of each of the conditions to the Merger set forth in the Merger Agreement. At the effective time of the Merger, each Share (other than Shares owned by Flexsteel or the Company or any of their respective subsidiaries, all of which will be cancelled, and other than Shares that are held by stockholders, if any, who properly exercise their dissenters' rights under Delaware Law) will be converted into the same price per share, in cash, without interest, as paid pursuant to the Offer.
4. Acting upon the unanimous recommendation of a special committee, comprised solely of independent directors, the Board of Directors of the Company unanimously (i) determined that the terms of the Offer and the Merger are fair to and in the best interests of the stockholders of the Company, (ii)

approved the Merger Agreement and the transactions contemplated thereby, including the Offer and the Merger, and (iii) recommends that the Company's stockholders accept the Offer and tender their Shares pursuant to the Offer.

5. The Offer and withdrawal rights will expire at 12:00 midnight, New York City time, on Wednesday, September 17, 2003 (the "Expiration Date"), unless the Offer is extended.

6. Any stock transfer taxes applicable to the sale of Shares to the Purchaser pursuant to the Offer will be paid by the Purchaser, except as otherwise provided in Instruction 6 of the Letter of Transmittal.

The Offer is conditioned upon, among other things, there being validly tendered and not withdrawn prior to the expiration date of the Offer a number of Shares that represents at least a majority of the then outstanding Shares on a fully-diluted basis. See Section 14 of the Offer to Purchase for additional conditions to the Offer.

The Offer is made solely by the Offer to Purchase and the related Letter of Transmittal and is being made to all holders of Shares. The Offer, however, is not being made to (nor will tenders be accepted from or on behalf of) holders of Shares in any jurisdiction in which the making of the Offer or the acceptance thereof would not be in compliance with the securities, blue sky or other laws of such jurisdiction. However, the Purchaser may, in its discretion, take such action as it may deem necessary to make the Offer in any jurisdiction and to extend the Offer to holders of Shares in such jurisdiction. In those jurisdictions where securities, blue sky or other laws require the Offer to be made by a licensed broker or dealer, the Offer will be deemed to be made on behalf of the Purchaser by one or more registered brokers or dealers licensed under the laws of such jurisdiction to be designated by the Purchaser.

If you wish to have us tender any or all of your Shares, please so instruct us by completing, executing and returning to us the instruction form contained in this letter. An envelope to return your instructions to us is also enclosed. If you authorize the tender of your Shares, all such Shares will be tendered unless otherwise specified in this letter. **Your instructions should be forwarded to us in ample time to permit us to submit a tender on your behalf prior to the Expiration Date.**

Offer to Purchase for Cash
All Outstanding Shares of Common Stock
of

DMI Industries, Inc.

at

$3.30 Net Per Share

by

Churchill Acquisition Corp.

a wholly owned subsidiary of

Flexsteel Industries, Inc.

The undersigned acknowledge(s) receipt of your letter and the enclosed Offer to Purchase dated August 20, 2003 and the related Letter of Transmittal in connection with the offer by Churchill Acquisition Corp., a Delaware corporation and a wholly owned subsidiary of Flexsteel Industries, Inc., a Minnesota corporation, to purchase all outstanding shares of common stock, par value $0.10 per share (the "Shares"), of DMI Industries, Inc., a Delaware corporation, at a purchase price of $3.30 per Share, net to the seller in cash, upon the terms and subject to the conditions set forth in the Offer to Purchase and the related Letter of Transmittal.

This will instruct you to tender to the Purchaser the number of Shares indicated below (or, if no number is indicated below, all Shares) that are held by you for the account of the undersigned, upon the terms and subject to the conditions set forth in the Offer to Purchase and the related Letter of Transmittal.

Account No.: _____

Dated: _____, 2003

Number of Shares to Be Tendered:

_____ shares of Common Stock*

SIGN HERE

_____

_____

Signature(s)

_____

_____

_____

_____

Print Name(s)and Address(es)

_____

_____

_____

Area Code and Telephone Number(s)

_____

Taxpayer Identification or Social Security Number(s)

* Unless otherwise indicated, it will be assumed that all Shares held by us for your account are to be tendered.

GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION NUMBER ON SUBSTITUTE FORM W-9

Guidelines for Determining the Proper Identification Number to Give the Payer—Social Security Numbers have nine digits separated by two hyphens: i.e., 000-00-0000. Employer Identification Numbers have nine digits separated by only one hyphen: i.e., 00-0000000. The table below will help determine the number to give the payer.

For this type of account:	Give the SOCIAL SECURITY number of—
1. Individual	The individual
2. Two or more individuals (joint account)	The actual owner of the account or, if combined funds, the first individual on the account(1)
3. Custodian account of a minor (Uniform Gift to Minors Act)	The minor(2)
4. a. The usual revocable saving trust (grantor is also trustee)	The grantor-trustee(1)
b. So-called trust account that is not a legal or valid trust under state law	The actual owner(1)
5. Sole proprietorship account or single-owner LLC disregarded as an entity separate from its owner under Treas. Reg. § 301.7701-3.	The owner(3)

For this type of account:	Give the TAXPAYER IDEN-TIFICATION number of—
6. A valid trust, estate or pension trust	The legal entity (Do not furnish the taxpayer identification number of the personal representative or trustee unless the legal entity itself is not designated in the account title)(4)
7. Corporate or LLC electing corporate status on Form 8832	The corporation or LLC
8. Association, club, religious, charitable, educational, or other tax-exempt organization	The organization
9. Partnership or multi-member LLC not electing corporate status on Form 8832	The partnership
10. A broker or registered nominee	The broker or nominee
11. Account with the Department of Agriculture in the name of a public entity (such as a state or local government, school district, or prison) that receives agricultural program payments	The public entity

(1) List first and circle the name of the person whose number you furnish. If only one person on a joint account has a Social Security number, that person's Social Security number must be furnished.
(2) Circle the minor's name and furnish the minor's Social Security number.
(3) You must show your individual name, but you may also enter your business or "doing business" name. You may use either your Social Security number or employer identification number (if you have one).
(4) List first and circle the name of the legal trust, estate, or pension trust.

NOTE: If no name is circled when more than one name is listed, the taxpayer identification number will be considered to be that of the first name listed.

Resident Alien Individuals: If you are a resident alien individual and you do not have, and are not eligible to get, a Social Security number, your taxpayer identification number is your individual taxpayer identification number ("ITIN") as issued by the Internal Revenue Service. Enter it on the portion of the Substitute Form W-9 where the Social Security number would otherwise be entered. If you do not have an ITIN, see "How to Obtain a Number" below.

Name

If you are an individual, you must generally provide the name shown on your Social Security card. However, if you have changed your last name, for instance, due to marriage without informing the Social Security Administration of the name change, enter your first name, the last name shown on your Social Security card, and your new last name. If you are a sole proprietor, enter your individual name as shown on your social security card on the "Name" line. You may enter your business, trade, or "doing business" name on the "Business Name" line. If you are a single-member LLC (including a foreign LLC with a domestic owner) that is disregarded as an entity separate from its owner under Treas. Reg. § 301.7701-3, enter the owner's name on the "Name" line and enter the LLC's name on the "Business Name" line. If you are not one of the above entities, enter your business name as shown on required federal tax documents on the "Name" line. You may enter your business, trade, or "doing business" name on the "Business Name" line. Check the appropriate box in Part 5 for your status (individual/sole proprietor, corporation, etc.).

How to Obtain a Number

If you do not have a taxpayer identification number or if you do not know your taxpayer identification number, apply for one immediately. To obtain a Social Security number (for individuals), obtain Form SS-5, Application for Social Security Number Card, from your local Social Security Administration office or on-line at www.ssa.gov/online/ss5.pdf and apply for a number. To obtain an Employer Identification Number (for businesses and all other entities), obtain Form SS-4, Application for Employer Identification Number, from the Internal Revenue Service (the "IRS") by calling 1-800-TAX-FORM or on-line at www.irs.gov and apply for a number. Resident alien individuals who are not eligible to get a Social Security number and need an ITIN should obtain Form W-7, Application for Individual Taxpayer Identification Number, from the IRS and apply for a number.

If you do not have a taxpayer identification number, write "Applied For" in the space for the taxpayer identification number on the Substitute Form W-9, check the box in Part 4, complete the accompanying certification, sign and date the form, and give it to the payer. For interest and dividend payments and certain payments made with respect to readily tradable instruments, you will generally have 60 days to get a taxpayer identification number and give it to the payer before you are subject to backup withholding on payments. Other payments are subject to backup withholding without regard to the 60-day rule, until you provide your taxpayer identification number. Note: Writing "Applied For" means that you have already applied for a taxpayer identification number or that you intend to apply for one soon.

Payees Exempt from Backup Withholding

The following is a list of payees exempt from backup withholding:

(1) An organization exempt from a tax under section 501(a) of the Internal Revenue Code (the "Tax Code"), an individual retirement plan, or a custodial account under section 403(b)(7) of the Tax Code if the account satisfies the requirements of section 401(f)(2) of the Tax Code.
(2) The United States or any agency or instrumentality thereof.
(3) A state, the District of Columbia, a possession of the United States, or any political subdivision or instrumentality thereof.
(4) A foreign government, a political subdivision of a foreign government, or any agency or instrumentality thereof.
(5) An international organization or any agency or instrumentality thereof.

The following is a list of payees that may be exempt from backup withholding:

(6) A corporation.
(7) A foreign central bank of issue.
(8) A dealer in securities or commodities required to register in the U.S., the District of Columbia or a possession of the U.S.
(9) A futures commission merchant registered with the Commodity Futures Trading Commission.
(10) A real estate investment trust
(11) An entity registered at all times during the tax year under the Investment Company Act of 1940.
(12) A common trust fund operated by a bank under section 584(a) of the Tax Code.
(13) A financial institution.
(14) A middleman known in the investment community as a nominee or custodian.
(15) A trust exempt from tax under section 664 of the Tax Code or described in section 4947 of the Tax Code.

For interest and dividends, all listed payees are exempt except the payee in item (9). For broker transactions, payees listed in (1) through (13) and a person registered under the Investment Advisers Act of 1940 who regularly acts as a broker are exempt. Payments subject to reporting under sections 6041 and 6041A are generally exempt from backup withholding only if made to payees described in items (1) through (7), except the following payments made to a corporation and reportable on Form 1099-MISC are not exempt from backup withholding: (a) medical and health care payments, (b) attorney's fees, and (c) payments for services paid by a federal executive agency.

Payments of dividends and patronage dividends not generally subject to backup withholding include the following:

- Payments to nonresident aliens subject to withholding under section 1441 of the Tax Code.
- Payments to partnerships not engaged in a trade or business in the U.S. and which have at least one nonresident alien partner.
- Payments of patronage dividends where the amount received is not paid in money.
- Payments made by certain foreign organizations.
- Section 404(k) distributions made by an ESOP.

Payments of interest not generally subject to backup withholding include the following:

- Payments of interest on obligations issued by individuals. NOTE: You may be subject to backup withholding if this interest is $600 or more, is paid in the course of the payer's trade or business and you have not provided your correct taxpayer identification number to the payer.
- Payments of tax-exempt interest, including exempt-interest dividends under section 852 of the Tax Code.
- Payments described in section 6049(b)(5) of the Tax Code to nonresident aliens.
- Payments on tax-free covenant bonds under section 1451 of the Tax Code.
- Payments made by certain foreign organizations.
- Payments of mortgage or student loan interest paid to you.

EXEMPT PAYEES DESCRIBED ABOVE SHOULD FILE SUBSTITUTE FORM W-9 TO AVOID POSSIBLE ERRONEOUS BACKUP WITHHOLDING. FILE THIS FORM WITH THE PAYER, FURNISH YOUR TAXPAYER IDENTIFICATION NUMBER, WRITE "EXEMPT" IN PART 2 OF THE FORM, SIGN AND DATE THE FORM AND RETURN IT TO THE PAYER. IF YOU ARE A NONRESIDENT ALIEN INDIVIDUAL, A FOREIGN OWNER OF A DOMESTIC DISREGARDED ENTITY, OR A FOREIGN ENTITY NOT SUBJECT TO BACKUP WITHHOLDING, FILE WITH THE PAYER AN APPROPRIATE COMPLETED FORM W-8.

Certain payments other than interest, dividends, and patronage dividends, which are not subject to information reporting are also not subject to backup withholding. For details, see sections 6041, 6041A, 6042, 6044, 6045, 6049, 6050A and 6050N of the Tax Code and the regulations thereunder.

Privacy Act Notice.—Section 6109 of the Tax Code requires you to provide your correct taxpayer identification number to persons who must file information returns with the IRS to report interest, dividends, and certain other income paid to you, mortgage interest you paid, the acquisition or abandonment of secured property, cancellation of debt, or contributions you made to an IRA or Archer MSA. The IRS uses the numbers for identification purposes and to help verify the accuracy of your tax return. The IRS may also provide this information to the Department of Justice for civil and criminal litigation, and to cities, states, and the District of Columbia to carry out their tax laws. We may also disclose this information to other countries under a tax treaty, or to federal and state agencies to enforce federal nontax criminal laws and to combat terrorism. You must provide your taxpayer identification number whether or not you are required to file a tax return. Payers must generally withhold 28% of taxable interest, dividend, and certain other payments to a payee who does not give a taxpayer identification number to a payer. Certain penalties may also apply.

Penalties

(1) Penalty for Failure to Furnish Taxpayer Identification Number.—If you fail to furnish your correct taxpayer identification number to a requester, you are subject to a penalty of $50 for each such failure unless your failure is due to reasonable cause and not to willful neglect.

(2) Civil Penalty for False Information With Respect to Withholding.—If you make a false statement with no reasonable basis which results in no imposition of backup withholding, you are subject to a penalty of $500.

(3) Criminal Penalty for Falsifying Information.—Falsifying certifications or affirmations may subject you to criminal penalties including fines and/or imprisonment.

(4) Misuse of Taxpayer Identification Numbers.—If the requester discloses or uses taxpayer identification numbers in violation of federal laws, the requester may be subject to civil and criminal penalties.

FOR ADDITIONAL INFORMATION CONTACT YOUR TAX CONSULTANT OR THE INTERNAL REVENUE SERVICE.

Flexsteel Industries, Inc. commences tender offer for all outstanding shares of DMI Furniture, Inc.

DUBUQUE, Iowa, Aug. 20, 2003—Flexsteel Industries, Inc. (Nasdaq:FLXS) today announced the commencement of its cash tender offer for all outstanding shares of common stock of DMI Furniture, Inc. (Nasdaq:DMIF) for $3.30 per share. The tender offer is being made pursuant to an Offer to Purchase, dated August 20, 2003, and in connection with the Agreement and Plan of Merger, dated as of August 12, 2003, by and among Flexsteel, Churchill Acquisition Corp., a wholly owned subsidiary of Flexsteel, and DMI, which Flexsteel and DMI announced on August 13, 2003.

The tender offer is scheduled to expire at 12:00 midnight, New York City time, on Wednesday, September 17, 2003, unless the tender offer is extended. The consummation of the tender offer is subject to receipt of at least a majority of the DMI shares (on a fully-diluted basis) and other conditions specified in the offer documents. Following completion of the tender offer and, if required, receipt of stockholder approval, Flexsteel intends to consummate a merger in which remaining DMI stockholders will receive the same cash price per share as paid in the tender offer.

DMI's board of directors has unanimously recommended that its shareholders tender their shares, pursuant to the tender offer. Certain shareholders of DMI owning approximately 8% of the outstanding common stock of DMI (on a fully-diluted basis) have agreed to tender their shares in the offer.

The Depositary for the tender offer is American Stock Transfer and Trust Company, 59 Maiden Lane, New York, NY 10038.

The Information Agent for the tender offer is Innisfree M&A Incorporated, 501 Madison Avenue, 20th Floor, New York, New York 10022.

A manufacturer of upholstered furniture, Flexsteel Industries, Inc. is headquartered in Dubuque, Iowa with additional factories in Lancaster, Pennsylvania; Riverside, California; Dublin, Georgia; Harrison, Arkansas; Starkville, Mississippi; and New Paris, Indiana.

DMI Furniture, Inc. is a Louisville, Kentucky based vertically integrated manufacturer, importer, and marketer of residential and commercial office furniture with four manufacturing plants and warehouses in Indiana and manufacturing sources in Asia and South America. DMI Furniture's divisions are WYNWOOD, Homestyles and DMI Commercial Office Furniture.

Additional Information

This announcement is neither an offer to purchase nor a solicitation of an offer to sell securities of DMI. The tender offer is being made pursuant to a tender offer statement and related materials. DMI Industries, Inc. stockholders are advised to read the tender

offer statement regarding the acquisition of DMI Furniture, Inc. referenced in this press release, which will be filed by Flexsteel Industries, Inc. with the U.S. Securities and Exchange Commission (SEC), and the related solicitation/recommendation statement, which will be filed by DMI Furniture, Inc with the SEC. The tender offer statement (including an offer to purchase, letter of transmittal and related tender offer documents) and the solicitation/recommendation statement will contain important information which should be read carefully before any decision is made with respect to the offer. These documents and others filed by Flexsteel Industries, Inc. and DMI Furniture, Inc. with the SEC will be available free of charge at the SEC's web site at http://www.sec.gov. The tender offer statement and solicitation/recommendation statement may also be obtained free of charge by directing a request by mail to Innisfree M&A Incorporated, 501 Madison Avenue, 20th Floor, New York, New York 10022, or by calling toll-free (888) 750-5834, and may also be obtained from Flexsteel Industries, Inc. by directing a request by mail to Flexsteel Industries, Inc., P. O. Box 877, Dubuque, Iowa 52004-0877, Attn: Timothy E. Hall, or by fax 563-556-8345.

Contact:

Flexsteel Industries, Inc., Dubuque
Timothy E. Hall, 563-556-7734 x392

This announcement is neither an offer to purchase nor a solicitation of an offer to sell Shares (as defined below). The Offer (as defined below) is made solely by the Offer to Purchase, dated August 20, 2003, and the related Letter of Transmittal and any amendments or supplements thereto, and is being made to all holders of Shares. The Offer, however, is not being made to (nor will tenders be accepted from or on behalf of) holders of Shares in any jurisdiction in which the making of the Offer or the acceptance thereof would not be in compliance with the securities, blue sky or other laws of such jurisdiction. However, the Purchaser (as defined below) may, in its discretion, take such action as it may deem necessary to make the Offer in any jurisdiction and to extend the Offer to holders of Shares in such jurisdiction. In those jurisdictions where securities, blue sky or other laws require the Offer to be made by a licensed broker or dealer, the Offer shall be deemed to be made on behalf of the Purchaser by one or more registered brokers or dealers licensed under the laws of such jurisdiction to be designated by the Purchaser.

NOTICE OF OFFER TO PURCHASE FOR CASH
ALL OF THE OUTSTANDING SHARES OF COMMON STOCK
of
DMI Furniture, Inc.
at
$3.30 Net Per Share
by
Churchill Acquisition Corp.
a wholly owned subsidiary of
Flexsteel Industries, Inc.

Churchill Acquisition Corp., a Delaware corporation (the “Purchaser”) and a wholly owned subsidiary of Flexsteel Industries, Inc., a Minnesota corporation (“Flexsteel”), is offering to purchase all outstanding shares of common stock, par value $0.10 per share (the “Shares”), of DMI Furniture, Inc., a Delaware corporation (the “Company”), at a price of $3.30 per Share, net to the seller in cash (the “Offer Price”), upon the terms and subject to the conditions set forth in the Offer to Purchase, dated August 20, 2003 (the “Offer to Purchase”), and in the related Letter of Transmittal (the “Letter of Transmittal”) (which, together with any amendments or supplements thereto, collectively constitute the “Offer”). Tendering stockholders who have Shares registered in their names and who tender directly to American Stock Transfer and Trust Company (the “Depositary”) will not be charged brokerage fees or commissions or, except as set forth in the Letter of Transmittal, transfer taxes on the purchase of Shares pursuant to the Offer. Stockholders who hold their Shares through a broker or bank should consult such institution as to whether it charges any service fees. The Purchaser will pay all charges and expenses of the Depositary and Innisfree M&A Incorporated, which is acting as the information agent for the Offer (the “Information Agent”), incurred in connection with the Offer.

THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON WEDNESDAY, SEPTEMBER 17, 2003, UNLESS THE OFFER IS EXTENDED.

The Offer is conditioned upon, among other things, there being validly tendered and not withdrawn prior to the Expiration Date (as defined below) a number of Shares that represents at least a majority of the then outstanding Shares on a fully-diluted basis. The Offer is also subject to other conditions. See Section 14 of the Offer to Purchase.

The Offer is being made pursuant to the Agreement and Plan of Merger, dated as of August 12, 2003 (the "Merger Agreement"), by and among Flexsteel, the Purchaser and the Company. The Merger Agreement provides that, among other things, the Purchaser will make the Offer and, after the purchase of Shares pursuant to the Offer and the satisfaction or waiver of the other conditions set forth in the Merger Agreement and in accordance with the relevant provisions of the Delaware General Corporation Law (the "DGCL"), the Purchaser will be merged with and into the Company, with the Company continuing as the surviving corporation (the "Merger"). At the effective time of the Merger (the "Effective Time"), each Share issued and outstanding immediately prior to the Effective Time (other than Shares owned by Flexsteel or the Company or any of their respective subsidiaries, all of which will be cancelled, and other than Shares that are held by stockholders, if any, who properly exercise their dissenters' rights under the DGCL) will be converted into the right to receive $3.30 in cash, or any higher price that is paid in the Offer, without interest thereon.

In connection with the Merger Agreement, certain stockholders of the Company, who own 409,193 Shares in the aggregate (approximately 8% of the outstanding Shares on a fully-diluted basis), entered into Tender and Voting Agreements (the "Tender and Voting Agreements"), dated as of August 12, 2003, with Flexsteel and the Purchaser. Pursuant to the Tender and Voting Agreements, such stockholders have agreed, among other things, to tender the Shares held by them in the Offer and to grant Parent a proxy with respect to the voting of such Shares in favor of the Merger upon the terms and subject to the conditions set forth therein.

ACTING UPON THE UNANIMOUS RECOMMENDATION OF A SPECIAL COMMITTEE, COMPRISED SOLELY OF INDEPENDENT DIRECTORS, THE BOARD OF DIRECTORS OF THE COMPANY UNANIMOUSLY (I) DETERMINED THAT THE TERMS OF THE OFFER AND THE MERGER ARE FAIR TO AND IN THE BEST INTERESTS OF THE STOCKHOLDERS OF THE COMPANY, (II) APPROVED THE MERGER AGREEMENT AND THE TRANSACTIONS CONTEMPLATED THEREBY, INCLUDING THE OFFER AND THE MERGER, AND APPROVED THE TENDER AND VOTING AGREEMENTS AND THE TRANSACTIONS CONTEMPLATED THEREBY AND (III) RECOMMENDS THAT THE COMPANY'S STOCKHOLDERS ACCEPT THE OFFER AND TENDER THEIR SHARES PURSUANT TO THE OFFER.

For purposes of the Offer, the Purchaser will be deemed to have accepted for payment, and thereby purchased, Shares validly tendered and not properly withdrawn as, if and when the Purchaser gives oral or written notice to the Depositary of the Purchaser's acceptance for payment of such Shares pursuant to the Offer. In all cases, on the terms and subject to the conditions of the Offer, payment for Shares purchased pursuant to the Offer will be made by deposit of the Offer Price with the Depositary, which shall act as agent for tendering stockholders for the purpose of receiving payments from the Purchaser and transmitting such payments to tendering stockholders. Payment for Shares tendered and accepted for payment pursuant to the Offer will be made only after timely receipt by the Depositary of (i) certificates evidencing such Shares or confirmation of a book-entry transfer of such Shares into the Depositary's account at the Book-Entry Transfer Facility (as defined in the Offer to Purchase) pursuant to the procedures set forth in the Offer to Purchase, (ii) a properly completed and duly executed Letter of Transmittal (or manually signed facsimile thereof) with any required signature guarantees or, in the case of book-entry transfer, an Agent's Message (as defined in the Offer to Purchase) in lieu of the Letter of Transmittal and (iii) any other documents required by the Letter of Transmittal. All questions as to the validity, form, eligibility (including time of receipt) and acceptance for payment of any tender of Shares will be determined by the Purchaser in its sole discretion, which determination shall be final and binding on all parties. Under no circumstances will interest be paid on the Offer Price for Shares tendered in the Offer, regardless of any extension of the Offer or any delay in making such payment.

The term "Expiration Date" means 12:00 midnight, New York City time, on Wednesday, September 17, 2003, unless the Purchaser shall have extended the period of time for which the Offer is open, in which event the term "Expiration Date" shall mean the latest time and date on which the Offer, as so extended by the Purchaser, shall expire.

Subject to the terms of the Merger Agreement, the Purchaser may, without the consent of the Company, (i) extend the Offer beyond the scheduled Expiration Date if any of the conditions to the Purchaser's obligation to accept for payment and to pay for the Shares are not satisfied or, to the extent permitted by the Merger Agreement, waived, (ii) extend the Offer for any period required by any rule, regulation, interpretation or position of the Securities and Exchange Commission or its staff applicable to the Offer, (iii) extend the offer beyond the scheduled Expiration Date for an additional period of not more than 10 business days, if on the scheduled Expiration Date, there have been validly tendered and not withdrawn at least 80% of the outstanding Shares but less than 90% of the outstanding Shares on a fully-diluted basis or (iv) increase the Offer Price and extend the Offer to the extent required by law in connection with such increase. The Merger Agreement provides that if, on the scheduled Expiration Date, (i) any of the events set forth in paragraphs (a), (b) or (c) of Section 14 of the Offer to Purchase shall have occurred and be continuing (and the condition with respect thereto shall not have been waived by Purchaser), subject to the Purchaser's right to terminate the Merger Agreement in accordance with its terms, the Purchaser must extend the Offer unless such conditions could not reasonably be expected to be satisfied by November 30, 2003 and (ii) any of the events set forth in paragraph (f) of Section 14 of the Offer to Purchase (but only with respect to unintentional failures of such representations and warranties to be true and

correct) or paragraph (g) of Section 14 of the Offer to Purchase (but only with respect to non-willful breaches of, or failures to comply with, covenants and agreements) shall have occurred and be continuing (and the condition with respect thereto shall not have been waived by the Purchaser), subject to the Purchaser's right to terminate the Merger Agreement in accordance with its terms, the Purchaser must extend the Offer to a date that is not less than 30 days from the date the Purchaser notified the Company of such event. During any such extension, all Shares previously tendered and not withdrawn will remain subject to the Offer, subject to the rights of a tendering stockholder to withdraw such stockholder's Shares. The Purchaser may, but is not required to, subject to the terms of the Merger Agreement, provide a subsequent offering period in accordance with Rule 14d-11 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") following the Expiration Date. A subsequent offering period is an additional period of time from three to 20 business days in length, beginning after the Purchaser purchases Shares tendered in the Offer, during which time stockholders may tender, but not withdraw, their Shares and receive the Offer Price.

Any extension of the period during which the Offer is open (or any decision to provide a subsequent offering period) will be followed, as promptly as practicable, by public announcement thereof, such announcement to be issued not later than 9:00 a.m., New York City time, on the next business day after the scheduled Expiration Date.

Shares tendered pursuant to the Offer may be withdrawn at any time prior to the Expiration Date and, unless theretofore accepted for payment pursuant to the Offer, also may be withdrawn at any time after November 14, 2003. Except as otherwise provided in Section 4 of the Offer to Purchase, tenders of Shares made pursuant to the Offer are irrevocable. For a withdrawal of Shares tendered pursuant to the Offer to be effective, a written, telegraphic or facsimile transmission notice of withdrawal must be timely received by the Depositary at one of its addresses set forth on the back cover of the Offer to Purchase. Any notice of withdrawal must specify the name of the person who tendered the Shares to be withdrawn, the number of Shares to be withdrawn and the name of the registered holder of such Shares, if different from that of the person who tendered the Shares. If certificates for Shares to be withdrawn have been delivered or otherwise identified to the Depositary, then, prior to the physical release of such certificates, the serial numbers shown on such certificates must be submitted to the Depositary and, unless such Shares have been tendered for the account of an Eligible Institution (as defined in the Offer to Purchase), the signature on the notice of withdrawal must be guaranteed by an Eligible Institution. If Shares have been tendered pursuant to the procedures for book-entry transfer as set forth in the Offer to Purchase, any notice of withdrawal must also specify the name and number of the account at the Book-Entry Transfer Facility to be credited with the withdrawn Shares. All questions as to the form and validity (including time of receipt) of notices of withdrawal shall be determined by the Purchaser, in its sole discretion, and its determination shall be final and binding on all parties. If the Purchaser elects to provide a subsequent offering period, no withdrawal rights apply to Shares tendered during the subsequent offering period, and no withdrawal rights apply during the subsequent offering period with respect to Shares tendered in the Offer and accepted for payment.

The receipt of cash for Shares pursuant to the Offer or the Merger will be a taxable transaction for United States federal income tax purposes and may also be a taxable transaction under applicable state, local or foreign tax laws. Stockholders should consult with their tax advisors as to the particular tax consequences of the Offer and the Merger to them, including the applicability and effect of the alternative minimum tax and any state, local or foreign income and other tax laws and of changes in such tax laws. For a more complete description of certain United States federal income tax consequences of the Offer and the Merger, see Section 5 of the Offer to Purchase.

The information required to be disclosed by paragraph (d)(1) of Rule 14d-6 of the General Rules and Regulations under the Exchange Act is contained in the Offer to Purchase and is incorporated herein by reference.

The Company has provided to the Purchaser its list of stockholders and security position listings for the purpose of disseminating the Offer to holders of Shares. The Offer to Purchase, the Letter of Transmittal and other related materials are being mailed to record holders of Shares and will be furnished to brokers, dealers, commercial banks, trust companies and similar persons whose names, or the names of whose nominees, appear on the stockholder list or, if applicable, who are listed as participants in a clearing agency's security position listing, for subsequent transmittal to beneficial owners of Shares.

THE OFFER TO PURCHASE AND THE RELATED LETTER OF TRANSMITTAL CONTAIN IMPORTANT INFORMATION THAT SHOULD BE READ CAREFULLY BEFORE ANY DECISION IS MADE WITH RESPECT TO THE OFFER.

Questions and requests for assistance and copies of the Offer to Purchase, the Letter of Transmittal and all other tender offer materials may be directed to the Information Agent at its address and telephone number set forth below, and copies will be furnished promptly at the Purchaser's expense. The Purchaser will not pay any fees or commissions to any broker or dealer or any other person (other than the Information Agent) for soliciting tenders of Shares pursuant to the Offer.

The Information Agent for the Offer is:

501 Madison Avenue, 20th Floor
New York, New York 10022
Stockholders Call Toll-Free: (888) 750-5834
Banks and Brokerage Firms Call Collect: (212) 750-5833

August 20, 2003

AGREEMENT AND PLAN OF MERGER

by and among

FLEXSTEEL INDUSTRIES, INC.

CHURCHILL ACQUISITION CORP.

and

DMI FURNITURE, INC.

dated

August 12, 2003

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Index of Defined Terms

AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER (hereinafter referred to as this "Agreement"), dated August 12, 2003, by and among Flexsteel Industries, Inc., a Minnesota corporation ("Parent"), Churchill Acquisition Corp., a Delaware corporation and a wholly-owned subsidiary of Parent (the "Purchaser"), and DMI Furniture, Inc., a Delaware corporation (the "Company").

WHEREAS, the Board of Directors of each of Parent, the Purchaser and the Company and a special committee of the Board of Directors of the Company composed entirely of independent directors (the "Special Committee") deems it advisable and in the best interests of its respective stockholders to consummate, the acquisition of the Company by Parent upon the terms and subject to the conditions set forth herein;

WHEREAS, in furtherance thereof, it is proposed that the Purchaser make a cash tender offer (the "Offer") to acquire all shares of the issued and outstanding common stock, par value $0.10 per share, of the Company (the "Shares") for $3.30 per share, net to the seller in cash (such price, or any such higher price per Share as may be paid in the Offer, is referred to herein as the "Offer Price");

WHEREAS, also in furtherance of such acquisition, the Board of Directors of each of Parent, the Purchaser and the Company has approved and declared advisable this Agreement and the Merger (as defined in Section 1.4) following the Offer in accordance with the General Corporation Law of the State of Delaware (the "DGCL") and upon the terms and subject to the conditions set forth herein;

WHEREAS, the Board of Directors of the Company (the "Company Board of Directors") has unanimously determined that the consideration to be paid for each Share in the Offer and the Merger is fair to the holders of such Shares and has resolved to recommend that the holders of such Shares accept the Offer and approve and adopt this Agreement and the Merger, upon the terms and subject to the conditions set forth herein; and

WHEREAS, simultaneously with the execution and delivery of this Agreement, and as a condition to Parent's and the Purchaser's willingness to enter into this Agreement, certain officers and directors of the Company are entering into

tender and voting agreements (the "Tender and Voting Agreements"), pursuant to which, among other things, such individuals are agreeing to tender their respective Shares in the Offer and to grant to Parent a proxy to vote their respective Shares in favor of the Merger, upon the terms and subject to the conditions set forth therein;

NOW, THEREFORE, in consideration of the foregoing and the mutual representations, warranties, covenants and agreements set forth herein, the parties hereto agree as follows:

ARTICLE I

THE OFFER AND MERGER

Section 1.1 The Offer. (a) Provided that this Agreement shall not have been terminated in accordance with Section 8.1 and none of the events set forth in Annex I hereto shall have occurred and be continuing, as promptly as practicable, and, in any event, within seven business days of the date hereof, the Purchaser shall commence (within the meaning of Rule 14d-2 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) the Offer to purchase for cash all Shares at the Offer Price. The obligations of the Purchaser to accept for payment and to pay for any Shares validly tendered on or prior to the expiration of the Offer and not withdrawn shall be subject to (i) there being validly tendered and not withdrawn prior to the expiration of the Offer that number of Shares which represents at least a majority of the Shares outstanding on a fully-diluted basis (the "Minimum Condition") and (ii) the other conditions set forth in Annex I hereto. Subject to the prior satisfaction of the Minimum Condition and subject to the prior satisfaction or waiver by Parent or the Purchaser of the other conditions of the Offer set forth in Annex I hereto (it being understood that the Minimum Condition cannot be waived or modified without the consent of the Company), the Purchaser shall, in accordance with the terms of the Offer, consummate the Offer and accept for payment and pay for all Shares validly tendered and not withdrawn pursuant to the Offer promptly after expiration of the Offer, which shall initially be the 20th business day following the commencement of the Offer, provided, however, that (w) if on the initial expiration date of the Offer or on any subsequent scheduled expiration date of the Offer (as extended in accordance with this Agreement), all conditions to the Offer shall not have been satisfied or waived, the Purchaser may, from time to time, in its sole discretion, extend the Offer for such period as the Purchaser may determine until such conditions are waived or satisfied; provided, however, that, if, as of any scheduled expiration date of the Offer, (A) any of the events set forth in clauses (a),

(b) or (c) of Annex I shall have occurred and be continuing (and the condition in Annex I with respect to the applicable clause shall not have been waived by the Purchaser) then, subject to the right of Parent and the Purchaser to terminate this agreement in accordance with its terms, the Purchaser shall be required to extend the Offer unless such conditions could not reasonably be expected to be waived or satisfied by the Outside Date or (B) any of the events set forth in clause (f) of Annex I (but only with respect to unintentional failures of such representations and warranties to be true and correct) or clause (g) of Annex I (but only with respect to non-willful breaches of, or failures to comply with, covenants and agreements) shall have occurred and be continuing (and the condition in Annex I with respect to the applicable clause shall not have been waived by the Purchaser), then, subject to the right of Parent and the Purchaser to terminate this agreement in accordance with its terms, the Purchaser shall be required to extend the offer to a date that is not less than 30 days after Purchaser notified the Company of such event, (x) the Purchaser may, in its sole discretion, extend the Offer for any period required by any rule, regulation, interpretation or position of the United States Securities and Exchange Commission (the "SEC") or the staff thereof applicable to the Offer, (y) if on the then scheduled expiration date of the Offer there shall have been validly tendered and not withdrawn at least 80% but less than 90% of the Shares outstanding on a fully diluted basis, the Purchaser may, in its sole discretion, extend the Offer for an additional period of not more than 10 business days, and (z) the Purchaser may, in its sole discretion, provide a "subsequent offering period" in accordance with Rule 14d-11 under the Exchange Act. In addition, the Purchaser may increase the Offer Price and extend the Offer to the extent required by law in connection with such increase, in each case in its sole discretion and without the Company's consent; provided, however, that neither Parent nor Purchaser shall otherwise modify the Offer in any manner adverse to the holders of Shares without the Company's consent, except as specifically permitted in this Agreement.

(b) As soon as practicable on the date the Offer is commenced, Parent and the Purchaser shall file with the SEC a Tender Offer Statement on Schedule TO with respect to the Offer, which shall include the offer to purchase and forms of the related letter of transmittal and all other ancillary Offer documents (collectively, together with any amendments and supplements thereto, the "Offer Documents"). Parent and the Purchaser shall cause the Offer Documents to be filed with the SEC and disseminated to holders of Shares as required by applicable federal securities laws. Parent and the Purchaser, on the one hand, and the Company, on the other hand, agree to promptly correct any information provided by it for use in the Offer Documents if it shall have become false or misleading in any

material respect or as otherwise required by law. Parent and the Purchaser further agree to take all steps necessary to cause the Offer Documents as so corrected to be filed with the SEC and disseminated to holders of Shares as required by applicable federal securities laws. The Company and its counsel shall be given a reasonable opportunity to review and comment on the Offer Documents before they are filed with the SEC or disseminated to holders of Shares. In addition, Parent and the Purchaser agree to provide the Company and its counsel with any comments or communications that Parent, the Purchaser or their counsel may receive from time to time from the SEC or its staff with respect to the Offer Documents promptly after Parent's or the Purchaser's, as the case may be, receipt of such comments, and any written or oral responses thereto.

Section 1.2 Company Actions. (a) On the date the Offer Documents are filed with the SEC, the Company shall, in a manner that complies with Rule 14d-9 under the Exchange Act, file with the SEC a Tender Offer Solicitation/Recommendation Statement on Schedule 14D-9 (together with all amendments, supplements and exhibits thereto, the "Schedule 14D-9") which shall, subject to the provisions of Section 5.2(c), contain the recommendation that the stockholders of the Company accept the Offer, tender their Shares to the Purchaser pursuant to the Offer, and approve and adopt this Agreement and the Merger. The Company agrees to cause the Schedule 14D-9 to be filed with the SEC and disseminated to holders of Shares as required by applicable federal securities laws. The Company, on the one hand, and Parent and the Purchaser, on the other hand, agree to promptly correct any information provided by it for use in the Schedule 14D-9 if it shall have become false or misleading in any material respect or as otherwise required by law. The Company agrees to take all steps necessary to cause the Schedule 14D-9 as so corrected to be filed with the SEC and disseminated to holders of the Shares as required by applicable federal securities laws. Parent, the Purchaser and their counsel shall be given the reasonable opportunity to review and comment on the Schedule 14D-9 before it is filed with the SEC or disseminated to holders of Shares. In addition, the Company agrees to provide Parent, the Purchaser and their counsel with any comments or communications that the Company or its counsel may receive from time to time from the SEC or its staff with respect to the Schedule 14D-9 promptly after the Company's receipt of such comments, and any oral or written responses thereto.

(b) In connection with the Offer, the Company shall, or shall cause its transfer agent to, promptly furnish to the Purchaser mailing labels, security position listings and any available listing or computer file containing the

names and addresses of the record holders of the Shares as of a recent date, and shall promptly furnish the Purchaser with such information and assistance (including, but not limited to, lists of holders of the Shares, updated periodically, and their addresses, mailing labels and lists of security positions) as the Purchaser may reasonably request.

Section 1.3 Directors.

(a) Promptly upon the purchase of and payment for Shares by Parent or the Purchaser which represent at least a majority of the outstanding Shares (on a fully-diluted basis), Parent shall be entitled to elect or designate such number of directors, rounded up to the next whole number, on the Company Board of Directors as is equal to the product of the total number of directors on the Company Board of Directors (giving effect to the directors elected or designated by Parent pursuant to this sentence) multiplied by the percentage that the aggregate number of Shares beneficially owned by the Purchaser, Parent and any of their affiliates bears to the total number of Shares then outstanding (on a fully-diluted basis). The Company shall, upon Parent's request, either take all actions necessary to promptly increase the size of the Company Board of Directors, or promptly secure the resignations of such number of its incumbent directors, or both, as is necessary to enable Parent's designees to be so elected or designated to the Company's Board of Directors, and shall take all actions necessary to cause Parent's designees to be so elected or designated at such time. At such time, the Company shall, upon Parent's request, also cause persons elected or designated by Parent to constitute the same percentage (rounded up to the next whole number) as is on the Company Board of Directors of (i) each committee of the Company Board of Directors, (ii) each board of directors (or similar body) of each Company Subsidiary (as defined in Section 3.2), and (iii) each committee (or similar body) of each such board. After Parent's designees are elected or appointed to the Company Board of Directors, then until the Effective Time, the Company Board of Directors shall have at least two (2) directors who are directors on the date of this Agreement and who are not officers of the Company (the "Independent Directors"); provided that, in such event, if the number of Independent Directors shall be reduced below two (2) for any reason whatsoever, the remaining Independent Director, if any, shall designate a person (who shall not be an officer or affiliate of the Company, any Company Subsidiary, Parent, or any Subsidiary of Parent) to fill such vacancy who shall be deemed to be an Independent Director for purposes of this Agreement or, if no Independent Directors then remain, the other directors shall designate two (2) persons to fill such vacancies who shall not be officers or affiliates of the Company, any Company Subsidiary, Parent or any

Subsidiary of Parent, and such persons shall be deemed to be Independent Directors for the purposes of this Agreement. The Company's obligations under this Section 1.3 shall be subject to Section 14(f) of the Exchange Act and Rule 14f-1 thereunder. The Company shall promptly take all actions required pursuant to such Section 14(f) and Rule 14f-1 in order to fulfill its obligations under this Section 1.3, including, but not limited to, mailing to stockholders (together with the Schedule 14D-9) the information required by Section 14(f) and Rule 14f-1 as is necessary to enable Parent's designees to be elected or designated to the Company Board of Directors. Parent or the Purchaser shall supply the Company with information with respect to either of them and their nominees, officers, directors and affiliates to the extent required by Section 14(f) and Rule 14f-1.

(b) Following the election or appointment of Parent's designees pursuant to this Section 1.3 and prior to the Effective Time, the affirmative vote of a majority of the Independent Directors then in office shall be required by the Company to (i) amend or terminate this Agreement by the Company, (ii) exercise or waive any of the Company's rights or remedies under this Agreement (iii) extend the time for performance of Parent's and the Purchaser's respective obligations under this Agreement or (iv) take any action that would materially delay the receipt of the Merger Consideration by the stockholders of the Company.

Section 1.4 The Merger. (a) Subject to the terms and conditions of this Agreement, at the Effective Time, the Company and the Purchaser shall consummate a merger (the "Merger") pursuant to which (i) the Purchaser shall be merged with and into the Company and the separate corporate existence of the Purchaser shall thereupon cease, (ii) the Company shall be the successor or surviving corporation in the Merger and shall continue to be governed by the laws of the State of Delaware, and (iii) the separate corporate existence of the Company with all its rights, privileges, immunities, powers and franchises shall continue unaffected by the Merger. The corporation surviving the Merger is sometimes hereinafter referred to as the "Surviving Corporation." The Merger shall have the effects set forth in the DGCL.

(b) The Certificate of Incorporation of the Purchaser, as in effect immediately prior to the Effective Time, shall be the Certificate of Incorporation of the Surviving Corporation, except as to the name of the Surviving Corporation, which shall be DMI Furniture, Inc., until thereafter amended as provided by law and such Certificate of Incorporation.

(c) The Bylaws of the Purchaser, as in effect immediately prior to the Effective Time, shall be the Bylaws of the Surviving Corporation, except as to the name of the Surviving Corporation, which shall be DMI Furniture, Inc., until thereafter amended as provided by law, the Certificate of Incorporation of the Surviving Corporation and such Bylaws.

Section 1.5 Effective Time. Parent, the Purchaser and the Company shall cause an appropriate Certificate of Merger to be executed and filed on the Closing Date with the Secretary of State of the State of Delaware as provided in the DGCL. Notwithstanding the foregoing, if the Merger is to be consummated pursuant to Section 1.10, Parent shall execute and file a Certificate of Ownership and Merger with the Secretary of State of the State of Delaware in accordance with the DGCL. The Merger shall become effective on the date and time on which the Certificate of Merger or the Certificate of Ownership and Merger, as the case may be, has been duly filed with the Secretary of State of the State of Delaware, or such later time as agreed upon by the parties, such time hereinafter referred to as the "Effective Time."

Section 1.6 Closing. The closing of the Merger (the "Closing") will take place at 10:00 a.m., Chicago time, on a date to be specified by the parties, such date to be no later than the second business day after satisfaction or waiver of all of the conditions set forth in Article VII (the "Closing Date"), at the offices of Skadden, Arps, Slate, Meagher & Flom (Illinois), 333 West Wacker Drive, Chicago, Illinois 60606, unless another date or place is agreed to in writing by the parties hereto.

Section 1.7 Directors and Officers of the Surviving Corporation. The directors of the Purchaser immediately prior to the Effective Time shall, from and after the Effective Time, be the directors of the Surviving Corporation, and the officers of the Company immediately prior to the Effective Time shall, from and after the Effective Time, be the officers of the Surviving Corporation, in each case until their respective successors shall have been duly elected, designated or qualified, or until their earlier death, resignation or removal in accordance with the Surviving Corporation's Certificate of Incorporation and Bylaws.

Section 1.8 Subsequent Actions. If at any time after the Effective Time the Surviving Corporation shall determine, in its sole discretion, that any actions are necessary or desirable to vest, perfect or confirm of record or otherwise in the Surviving Corporation its right, title or interest in, to or under any of the rights,

properties or assets of either of the Company or the Purchaser acquired or to be acquired by the Surviving Corporation as a result of, or in connection with, the Merger or otherwise to carry out this Agreement, then the officers and directors of the Surviving Corporation shall be authorized take all such actions as may be necessary or desirable to vest all right, title or interest in, to and under such rights, properties or assets in the Surviving Corporation or otherwise to carry out this Agreement.

Section 1.9 Stockholders' Meeting. (a) If required by law to consummate the Merger, the Company shall in accordance with applicable law:

(i) duly call, give notice of, convene and hold a special meeting of its stockholders as soon as reasonably practicable following the acceptance for payment and purchase of Shares by the Purchaser pursuant to the Offer for the purpose of considering and taking action upon this Agreement;

(ii) prepare and file with the SEC a preliminary proxy or information statement relating to the Merger and this Agreement and use its reasonable best efforts to obtain and furnish the information required to be included by the SEC in the Proxy Statement and, after consultation with Parent, respond promptly to any comments made by the SEC with respect to the preliminary proxy or information statement and cause a definitive proxy or information statement (together with any amendments and supplements thereto, the "Proxy Statement") to be mailed to its stockholders;

(iii) subject to Section 5.2(c), include in the Proxy Statement the recommendation of the Company Board of Directors that stockholders of the Company vote in favor of the approval of the Merger and the adoption of this Agreement; and

(iv) use its reasonable best efforts to solicit from holders of Shares proxies in favor of the Merger and take all actions reasonably necessary or, in the reasonable opinion of the Purchaser, advisable to secure the approval of stockholders required by the DGCL, the Company's Certificate of Incorporation and any other applicable law to effect the Merger.

(b) Parent agrees to vote, or cause to be voted, all of the Shares then owned by it, the Purchaser or any of its other Subsidiaries and affiliates in favor of the approval of the Merger and the adoption of this Agreement.

Section 1.10 Merger Without Meeting of Stockholders. Notwithstanding Section 1.9, in the event that Parent, the Purchaser or any other Subsidiary of Parent shall acquire at least 90% of the outstanding Shares, the parties hereto agree, subject to Article VII, to take all necessary and appropriate actions to cause the Merger to become effective as soon as practicable after such acquisition, without a meeting of stockholders of the Company, in accordance with Section 253 of the DGCL.

ARTICLE II

CONVERSION OF SECURITIES

Section 2.1 Conversion of Capital Stock. As of the Effective Time, by virtue of the Merger and without any action on the part of the holders of any Shares or the holders of the common stock, par value $0.01 per share, of the Purchaser (the "Purchaser Common Stock"):

(a) Each outstanding share of Purchaser Common Stock shall be converted into and become one fully paid and nonassessable share of common stock of the Surviving Corporation.

(b) All Shares that are owned by the Company as treasury stock and any Shares owned by Parent, the Purchaser or any other wholly-owned Subsidiary of Parent shall be cancelled and retired, and no consideration shall be delivered in exchange therefor.

(c) Each outstanding Share (other than Shares to be cancelled in accordance with Section 2.1(b) and other than Dissenting Shares) shall be converted into the right to receive the Offer Price, payable to the holder thereof in cash, without interest (the "Merger Consideration"). From and after the Effective Time, all such Shares shall no longer be outstanding and shall automatically be cancelled and retired, and each holder of a certificate representing any such Shares shall cease to have any rights with respect thereto, except the right to receive the Merger Consideration therefor upon the surrender of such certificate in accordance with Section 2.2, without interest thereon.

Section 2.2 Paying Agent. (a) Prior to the Effective Time, Parent shall designate an agent reasonably acceptable to the Company (the "Paying Agent") for the holders of Shares in connection with the Merger and to receive the funds to which holders of Shares shall become entitled pursuant to Section 2.1(c). Prior to the Effective Time, Parent or the Purchaser shall make available to the Paying Agent the aggregate Merger Consideration. Such funds shall be invested by the Paying Agent as directed by Parent or the Surviving Corporation, in its sole discretion, pending payment thereof by the Paying Agent to the holders of the Shares. Earnings from such investments shall be the sole and exclusive property of Parent and the Surviving Corporation, and no part of such earnings shall accrue to the benefit of holders of Shares.

(b) Promptly after the Effective Time, the Paying Agent shall mail to each holder of record of Shares, whose Shares were converted pursuant to Section 2.1 into the right to receive the Merger Consideration (i) a customary letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the certificates representing the Shares (the "Certificates") shall pass, only upon delivery of the Certificates to the Paying Agent) and (ii) instructions for effecting the surrender of the Certificates in exchange for payment of the Merger Consideration. Upon surrender of a Certificate for cancellation to the Paying Agent or to such other agent or agents as may be appointed by Parent, together with such letter of transmittal, duly executed, the holder of such Certificate shall be entitled to receive in exchange therefor the Merger Consideration for each Share formerly represented by such Certificate and the Certificate so surrendered shall forthwith be cancelled. If payment of the Merger Consideration is to be made to a Person other than the Person in whose name the surrendered Certificate is registered, it shall be a condition precedent of payment that (x) the Certificate so surrendered shall be properly endorsed or shall be otherwise in proper form for transfer, and (y) the Person requesting such payment shall have paid any transfer and other taxes required by reason of the payment of the Merger Consideration to a Person other than the registered holder of the Certificate surrendered or shall have established to the satisfaction of the Surviving Corporation that such tax either has been paid or is not required to be paid. Until surrendered as contemplated by this Section 2.2, each Certificate shall be deemed after the Effective Time to represent only the right to receive the Merger Consideration, without interest thereon.

(c) At the Effective Time, the stock transfer books of the Company shall be closed and thereafter there shall be no further registration of

transfers of Shares on the records of the Company. From and after the Effective Time, the holders of Certificates evidencing ownership of Shares outstanding immediately prior to the Effective Time shall cease to have any rights with respect to such Shares, except as otherwise provided for herein or by applicable law. If, after the Effective Time, Certificates are presented to the Surviving Corporation for any reason, they shall be cancelled and exchanged as provided in this Article II.

(d) At any time following six months after the Effective Time, the Surviving Corporation shall be entitled to require the Paying Agent to deliver to it any funds (including any interest received with respect thereto) made available to the Paying Agent and not disbursed to holders of Certificates, and thereafter such holders shall be entitled to look only to the Surviving Corporation (subject to abandoned property, escheat or other similar laws) only as general creditors thereof with respect to the Merger Consideration payable upon due surrender of their Certificates, without any interest thereon. Notwithstanding the foregoing, neither the Surviving Corporation nor the Paying Agent shall be liable to any holder of a Certificate for Merger Consideration delivered to a public official pursuant to any applicable abandoned property, escheat or similar law.

Section 2.3 Dissenting Shares. (a) Notwithstanding anything in this Agreement to the contrary, Shares outstanding immediately prior to the Effective Time and held by a holder who has not voted in favor of the Merger or consented thereto in writing and who has complied with Section 262 of the DGCL ("Dissenting Shares") shall not be converted into a right to receive the Merger Consideration, unless such holder fails to perfect or withdraws or otherwise loses his or her right to appraisal. A holder of Dissenting Shares shall be entitled to receive payment of the appraised value of such Shares held by him or her in accordance with Section 262 of the DGCL, unless, after the Effective Time, such holder fails to perfect or withdraws or loses his or her right to appraisal, in which case such Shares shall be converted into and represent only the right to receive the Merger Consideration, without interest thereon, upon surrender of the Certificate or Certificates representing such Shares pursuant to Section 2.2.

(b) The Company shall give Parent (i) prompt notice of any written demands for appraisal of any Shares, attempted withdrawals of such demands and any other instruments served pursuant to the DGCL and received by the Company relating to rights of appraisal and (ii) the opportunity to direct all negotiations and proceedings with respect to demands for appraisal under the DGCL. Except with the prior written consent of Parent, the Company shall not make any

payment with respect to any demands for appraisal or settle or offer to settle any such demands for appraisal.

Section 2.4 Company Equity Plans.

(a) Prior to the Effective Time, the Company shall have taken all necessary actions so that, at the Effective Time, each unexpired and unexercised stock option under the DMI Furniture, Inc. 1993 Long Term Incentive Stock Plan for Employees, the DMI Furniture, Inc. 1998 Stock Plan for Independent Directors, or the DMI Furniture, Inc. Nonemployee Directors Stock Option Program (collectively, the "Option Plans"), or otherwise granted by the Company outside of the Option Plans (collectively, the "Options") other than any Option identified on Section 2.4(a) of the Company Disclosure Schedule, will be assumed by Parent in accordance with the existing terms of such Options and any applicable Option Plan as of the Effective Time as hereinafter provided. At the Effective Time, without further action on the part of the Company or the holder of such Option, each Option assumed by Parent will be automatically converted into an option (the "New Parent Option") to purchase common stock, par value $1.00 per share, of Parent (the "Parent Common Shares"). With respect to each such New Parent Option (i) the number of Parent Common Shares subject to such New Parent Option will be determined by multiplying the number of Shares subject to such Option immediately prior to the Effective Time by the Option Exchange Ratio, and rounding any fractional share down to the nearest whole share, and (ii) the per share exercise price of such New Parent Option will be determined by dividing the exercise price per share specified in such Option by the Option Exchange Ratio, and rounding the exercise price thus determined up to the nearest whole cent, provided, however, that in the case of any such Option to which Section 422 of the Code applies, the adjustments provided for in this Section shall be effected in a manner consistent with the requirements of Section 424(a) of the Code. Such New Parent Option shall otherwise be subject to the same terms and conditions as such Option. At the Effective Time, (i) all references in the Option Plans, the applicable stock option or other award agreements issued thereunder and in any other Options to the Company shall be deemed to refer to Parent; and (ii) Parent shall assume the Option Plans and all of the Company's obligations with respect to such Options, subject to this Section 2.4. The "Option Exchange Ratio" shall mean the Offer Price divided by the average of the closing price per Parent Common Share as reported in The Wall Street Journal for each of the ten consecutive trading days in the period ending (and inclusive of) the date that is five trading days prior to the Effective Time.

(b) Parent shall take all corporate action necessary to reserve for issuance a sufficient number of Parent Common Shares for delivery pursuant to the terms set forth in this Section 2.4.

(c) On or before the Closing Date, Parent shall file with the Securities and Exchange Commission a registration statement on an appropriate form or a post-effective amendment to a previously filed registration statement under the Securities Act of 1933, as amended (the "Securities Act"), with respect to Parent Common Shares subject to New Parent Options, and shall use its reasonable best efforts to maintain the current status of the prospectus contained therein, as well as comply with any applicable state securities or "blue sky" laws, for so long as New Parent Options remain outstanding.

(d) Prior to the Effective Time, Parent and the Company shall use all reasonable efforts to approve in advance in accordance with the procedures set forth in Rule 16b-3 promulgated under the Exchange Act and the Skadden, Arps, Slate, Meagher & Flom LLP SEC No-Action Letter (January 12, 1999) any dispositions of Shares (including derivative securities with respect to Shares) to or acquisitions of Parent Common Shares (including derivative securities with respect to Parent Common Shares) resulting from the transactions contemplated by this Agreement by each officer or director of the Company who is subject to Section 16 of the Exchange Act (or who will become subject to Section 16 of the Exchange Act as a result of the transactions contemplated hereby) with respect to equity securities of Parent or the Company.

(e) Prior to the Effective Time, the Company shall have taken all necessary actions so that at the Effective Time, (i) all amounts credited to any participant under the DMI Furniture, Inc. Stock Compensation and Deferral Plan for Outside Directors (the "Director Deferral Plan") shall be paid in cash to the participant, (ii) all liabilities under the Director Deferral Plan shall have been extinguished, and (iii) the Director Deferral Plan shall have been terminated and made of no further force or effect.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

Except as set forth in a schedule delivered to Parent prior to the execution of this Agreement (the "Company Disclosure Schedule"), the Company

represents and warrants to Parent and the Purchaser as set forth below. Each exception set forth in the Company Disclosure Schedule is identified by reference to, or has been grouped under a heading referring to, a specific individual section or subsection of this Agreement and relates only to such section or subsection; provided, however, that the inclusion of any item referenced in one section of the Company Disclosure Schedule shall be deemed to refer to any other section of the Company Disclosure Schedule, whether or not an explicit cross-reference appears, if the applicability of such item to the other section is readily apparent.

Section 3.1 Organization. (a) The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has full corporate power and authority and all necessary governmental licenses, authorizations, permits, consents and approvals to own, lease and operate its properties and to carry on its business as it is now being conducted, except where the failure to be so organized, existing and in good standing or to have such power, authority, or governmental licenses, authorizations, permits, consents or approvals could not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect. As used in this Agreement, "Company Material Adverse Change" or "Company Material Adverse Effect" means any change, development, condition or circumstance having a material adverse effect on (i) the assets, business, operations, results of operations, liabilities, or financial condition of the Company and the Company Subsidiaries, taken as a whole, or (ii) the ability of the Company to perform its obligations under this agreement or consummate each of the Transactions.

(b) The Company is duly qualified or licensed to do business and in good standing in each jurisdiction where such qualification or licensing is necessary, except where the failure to be so qualified or licensed or in good standing could not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect.

Section 3.2 Subsidiaries and Affiliates. (a) Section 3.2(a) of the Company Disclosure Schedule sets forth the name, jurisdiction of incorporation or organization and authorized and outstanding capital of each Company Subsidiary. Other than with respect to the Company Subsidiaries, the Company does not own, directly or indirectly, any capital stock or other equity securities of any Person or have any direct or indirect equity or ownership interest in any business. Except as set forth in Section 3.2(a) of the Company Disclosure Schedule, all of the outstanding capital stock (or similar equity interests) of each Company Subsidiary is

(or are) owned directly or indirectly by the Company or other Company Subsidiaries free and clear of all liens, charges, security interests, options, claims, mortgages, pledges, or other encumbrances and restrictions of any nature whatsoever ("Encumbrances"), and is (or are) validly issued, fully paid and nonassessable. As used in this Agreement: the term "Company Subsidiary" means each Person which is a Subsidiary of the Company; the term "Subsidiary" means with respect to any party, any corporation, partnership, limited liability company or other organization or entity, whether incorporated or unincorporated, of which (i) at least a majority of the securities or other interests having by their terms ordinary voting power to elect a majority of the board of directors or others performing similar functions with respect to such organization is directly or indirectly owned or controlled by such party or by any one or more of its Subsidiaries, or by such party and one or more of its Subsidiaries or (ii) such party or any other Subsidiary of such party is a general partner (excluding any such partnership where such party or any Subsidiary of such party does not have a majority of the voting interest in such partnership); and the term "Person" means a natural person, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, Governmental Entity or other entity or organization.

(b) Each Company Subsidiary (i) is duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, (ii) has full power and authority and all necessary governmental licenses, authorizations, permits, consents and approvals to own, lease and operate its properties and to carry on its business as it is now being conducted, and (iii) is duly qualified or licensed to do business and in good standing in each jurisdiction where such qualification or license is necessary, except where the failure to have such licenses, authorizations, permits, consents or approvals, and the failure to be so duly qualified or licensed and in good standing could not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect. The Company has heretofore delivered to Parent complete and correct copies of the Certificate of Incorporation and Bylaws (or similar organizational documents) of the Company and each Company Subsidiary as presently in effect.

Section 3.3 Capitalization. (a) The authorized capital stock of the Company consists of (i) 9,600,000 Shares and (ii) 2,000,000 shares of preferred stock, par value $10.00 per share (the "Preferred Stock"). As of the date hereof, (i) 4,298,786 Shares are issued and outstanding, (ii) no shares of Preferred Stock are issued and outstanding, (iii) no Shares are issued and held in the treasury of the Company, and (iv) a total of 811,101 Shares are reserved for issuance upon the

exercise of outstanding Options. All of the outstanding shares of the Company's capital stock are, and all Shares which may be issued pursuant to the exercise of outstanding Options will be, duly authorized, validly issued, fully paid and non-assessable. There is no indebtedness having general voting rights (or convertible into securities having such rights) ("Voting Debt") of the Company or any Company Subsidiary issued and outstanding. Except as disclosed in this Section 3.3 or as set forth in Section 3.3(a) of the Company Disclosure Schedule, (i) there are no existing options, warrants, calls, pre-emptive rights, subscriptions or other rights, agreements, arrangements, understandings or commitments of any kind relating to the issued or unissued capital stock of, or other equity interests in, the Company or any Company Subsidiary obligating the Company or any Company Subsidiary to issue, transfer, register or sell or cause to be issued, transferred, registered or sold any shares of capital stock or Voting Debt of, or other equity interest in, the Company or any Company Subsidiary or securities convertible into or exchangeable for such shares or equity interests or other securities, or obligating the Company or any Company Subsidiary to grant, extend or enter into any such option, warrant, call, subscription or other right, agreement, arrangement, understanding or commitment, and (ii) there are no outstanding agreements, arrangements, understandings or commitments of the Company or any Company Subsidiary to repurchase, redeem or otherwise acquire any Shares or the capital stock of the Company or any capital stock or other equity interests in any Company Subsidiary or any Person or to provide funds to make any investment (in the form of a loan, capital contribution or otherwise) in any Company Subsidiary or any Person. There are no outstanding or authorized stock appreciation, phantom stock, profit participation or other similar rights with respect to the Company or any Company Subsidiary.

(b) Section 3.3(b) of the Company Disclosure Schedule sets forth, with respect to each Option outstanding as of August 12, 2003, the number of Shares issuable therefor, and the purchase price payable therefor upon the exercise of each such Option. Since August 12, 2003, the Company has not granted or issued any Options. All of the Options have been granted to employees or directors of the Company in the ordinary course of business consistent with past practice. Except as set forth in Section 3.3(b) of the Company Disclosure Schedule, all options granted under the Option Plans have been granted pursuant to option award agreements in substantially the form attached as an exhibit to Section 3.3(b) of the Company Disclosure Schedule.

(c) There are no voting trusts or other agreements or understandings to which the Company or any Company Subsidiary is a party with

respect to the voting of the capital stock of the Company or any of the Company Subsidiaries.

Section 3.4 Authorization; Validity of Agreement; Company Action. The Company has the requisite corporate power and authority to execute and deliver this Agreement, and has the requisite corporate power and authority to perform the transactions provided for or contemplated by this Agreement, including, but not limited to, the Offer and the Merger (collectively, the "Transactions"). The execution, delivery and performance by the Company of this Agreement, and the consummation by it of the Transactions, have been duly and validly authorized by the Company Board of Directors, and no other corporate proceeding on the part of the Company is necessary to authorize the execution and delivery by the Company of this Agreement and the consummation by it of the Transactions other than, with respect to the Merger, the approval of the Merger and adoption of this Agreement by holders of a majority of the outstanding Shares, if such approval and adoption is required by law. This Agreement has been duly and validly executed and delivered by the Company and, assuming due and valid authorization, execution and delivery hereof by Parent and the Purchaser, is a valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except to the extent that enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, or other similar laws affecting enforcement of creditors' rights generally (regardless of whether enforcement is considered in a proceeding at law or in equity).

Section 3.5 Board Approvals. The Special Committee, at a meeting duly called and held, has unanimously (i) determined that each of the Agreement, the Offer and the Merger, are advisable, fair to and in the best interests of the stockholders of the Company and (ii) voted to recommend to the Company Board of Directors that the Company Board of Directors approve this Agreement and the Transactions and recommend that the stockholders of the Company accept the Offer, tender their Shares to the Purchaser pursuant to the Offer, and approve and adopt this Agreement and the Merger, and none of the aforesaid actions by the Special Committee has been amended, rescinded or modified. The Company Board of Directors, at a meeting duly called and held, has unanimously (i) determined that each of the Agreement, the Offer and the Merger are advisable and fair to and in the best interests of the stockholders of the Company, (ii) duly and validly approved, adopted and declared advisable this Agreement and the Transactions and taken all other corporate action required to be taken by the Company Board of Directors to authorize the consummation of the Transactions, and (iii) resolved to recommend

that the stockholders of the Company accept the Offer, tender their Shares to the Purchaser pursuant to the Offer, and approve and adopt this Agreement and the Merger, and none of the aforesaid actions by the Company Board of Directors has been amended, rescinded or modified. The action taken by the Company Board of Directors constitutes approval of the Transactions (including each of the Offer, the Merger and the Tender and Voting Agreements) by the Company Board of Directors under Section 203 of the DGCL, and no other state takeover statute or similar statute or regulation in any jurisdiction in which the Company or any Company Subsidiary does business is applicable to the Transactions (including each of the Offer, the Merger and the Tender and Voting Agreements).

Section 3.6 Required Vote. The affirmative vote of the holders of a majority of the outstanding Shares is the only vote of the holders of any class or series of the Company's capital stock necessary to approve the Merger and adopt this Agreement.

Section 3.7 Consents and Approvals; No Violations. None of the execution, delivery or performance of this Agreement by the Company, the consummation by the Company of the Transactions or compliance by the Company with any of the provisions of this Agreement will (i) assuming approval of the Merger and this Agreement by holders of a majority of the outstanding Shares, if required, conflict with or result in any breach of any provision of the Certificate of Incorporation, the Bylaws or similar organizational documents of the Company or any Company Subsidiary, (ii) require any filing by the Company with, or permit, authorization, consent or approval of, any court, arbitral tribunal, administrative agency or commission or other governmental or other regulatory authority or agency, foreign or domestic (a "Governmental Entity") (except for (A) compliance with any applicable requirements of the Exchange Act, (B) any filings as may be required under the DGCL in connection with the Merger and (C) the filing with the SEC and the NASDAQ Stock Market of (1) the Schedule 14D-9 and (2) a Proxy Statement if stockholder approval of the Merger is required by law), (iii) assuming all of the required consents and approvals identified in Section 3.7 of the Company Disclosure Schedule are obtained, result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, amendment, cancellation or acceleration) under, or result in the creation of any Encumbrance on the assets and properties of the Company or any Company Subsidiary under, any of the terms, conditions or provisions of any note, bond, mortgage, lien, indenture, lease, license, contract, agreement, arrangement or understanding or other instrument or obligation (each, a "Contract") to which the

Company or any Company Subsidiary is a party or by which any of them or any of their respective properties or assets may be bound or (iv) assuming the Merger and this Agreement are approved by holders of a majority of the outstanding Shares, if required, and assuming all required consents and approvals identified in Section 3.7 of the Company Disclosure Schedule are obtained and all applicable filings identified in Section 3.7(ii) are made, violate any order, writ, injunction, decree, statute, rule or regulation applicable to the Company, any Company Subsidiary or any of their respective properties or assets, except in the case of clauses (ii) or (iii) where (x) any failure to obtain such permits, authorizations, consents or approvals, (y) any failure to make such filings, or (z) any such violations, breaches, defaults or Encumbrances could not, individually or in the aggregate, reasonably be expected to (I) have a Company Material Adverse Effect or (II) materially delay the consummation of the Transactions.

Section 3.8 Company SEC Documents and Financial Statements. Since September 2, 2000, the Company has timely filed with the SEC all forms, reports, schedules, statements, exhibits, and other documents required by it to be filed under the Exchange Act or the Securities Act (collectively, the "Company SEC Documents"). As of its filing date or, if amended, as of the date of the last such amendment, each Company SEC Document fully complied with the applicable requirements of the Exchange Act and the Securities Act, as the case may be, and the applicable rules and regulations of the SEC thereunder. As of its filing date or, if amended, as of the date of the last such amendment, each Company SEC Document filed pursuant to the Exchange Act did not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. Each Company SEC Document that is a registration statement, as amended or supplemented, if applicable, filed pursuant to the Securities Act, as of the date such registration statement or amendment became effective, did not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading. None of the Company Subsidiaries is required to file any forms, reports or other documents with the SEC. All of the audited consolidated financial statements and unaudited consolidated interim financial statements of the Company included in the Company SEC Documents (collectively, the "Financial Statements") (i) have been prepared from, are in accordance with and accurately reflect in all material respects the books and records of the Company and its consolidated Subsidiaries, (ii) fully comply in all material respects with the applicable accounting requirements and with the published rules and regulations of the SEC with respect thereto, (iii) have been prepared in

accordance with United States generally accepted accounting principles ("GAAP") applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto and except, in the case of the unaudited interim statements, as may be permitted under Form 10-Q of the Exchange Act) and (iv) fairly present in all material respects the consolidated financial position and the consolidated results of operations and cash flows (subject, in the case of unaudited interim financial statements, to normal and recurring year-end adjustments) of the Company and its consolidated Subsidiaries as of the times and for the periods referred to therein.

Section 3.9 Absence of Certain Changes. Except as specifically contemplated by this Agreement, since May 31, 2003, (a) the Company and each Company Subsidiary has conducted its respective business only in the ordinary course of business consistent with past practice, (b) neither the Company nor any Company Subsidiary has suffered any Company Material Adverse Change and no facts or circumstances have occurred that could, individually or in the aggregate, reasonably be expected to cause the Company to suffer any Company Material Adverse Change, and (c) neither the Company nor any Company Subsidiary has taken any action that, if taken after the date of this Agreement, would constitute a breach of any of the covenants set forth in Section 5.1.

Section 3.10 No Undisclosed Liabilities. Except (a) as disclosed in the Financial Statements filed prior to the date hereof and (b) for liabilities and obligations (i) incurred in the ordinary course of business consistent with past practice since August 31, 2002 or (ii) as could not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, neither the Company nor any Company Subsidiary has incurred any liabilities or obligations of any nature, whether or not accrued, contingent, absolute or otherwise. As of August 12, 2003, except for any indebtedness related to the swap contracts entered into pursuant to that certain ISDA Master Agreement, dated October 1, 1998, between Bank One, N.A. and the Company (collectively, the "Swap Agreement"), the Company had outstanding indebtedness (on a consolidated basis) for borrowed money, indebtedness evidenced by notes, bonds, debentures or similar instruments, and capital lease obligations of $27,180,550.50. The Company had outstanding indebtedness (on a consolidated basis) related to the Swap Agreement of $ 423,975 as of July 31, 2003.

Section 3.11 Litigation; Orders. Except as set forth in Section 3.11 of the Company Disclosure Schedule, there is no suit, claim, action, proceeding, including, without limitation, arbitration proceeding or alternative dispute resolution

proceeding, or investigation pending or, to the knowledge of the Company, threatened against, affecting or naming as a party thereto the Company or any Company Subsidiary that could, individually or in the aggregate, reasonably be expected to (i) have a Company Material Adverse Effect or (ii) materially delay the consummation of the Transactions; and the Company does not know of any valid basis for any such suit, claim, action or proceeding. Except as set forth in Section 3.11 of the Company Disclosure Schedule, no judgement, decree, injunction, rule or order of any Governmental Entity is outstanding against the Company or any Company Subsidiary or any of their respective properties or assets that could, individually or in the aggregate, reasonably be expected to (i) have a Company Material Adverse Effect or (ii) materially delay the consummation of the Transactions. The phrase "knowledge of the Company" and words of similar import shall mean actual knowledge after reasonable inquiry under the circumstances by any of the current serving directors of the Company, any of the Company's executive officers (as defined in the Exchange Act) or any individual succeeding to the position of any of the foregoing directors or individuals.

Section 3.12 Employee Benefit Plans; ERISA.

(a) Section 3.12(a) of the Company Disclosure Schedule contains a true and complete list of each deferred compensation and each incentive compensation, equity compensation plan, "welfare" plan, fund or program (within the meaning of section 3(1) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")); "pension" plan, fund or program (within the meaning of section 3(2) of ERISA); each employment, termination or severance agreement; and each other employee benefit plan, fund, program, agreement or arrangement, in each case, that is sponsored, maintained or contributed to or required to be contributed to by the Company or by any trade or business, whether or not incorporated (an "ERISA Affiliate"), that together with the Company would be deemed a "single employer" within the meaning of section 4001(b) of ERISA, or to which the Company or an ERISA Affiliate is party, whether written or oral, for the benefit of any employee or former employee of the Company or any Company Subsidiary (the "Plans").

(b) With respect to each Plan, the Company has heretofore delivered to Parent true and complete copies of the Plan and any amendments thereto (or if the Plan is not a written Plan, a description thereof), any related trust or other funding vehicle, any reports or summaries required under ERISA or the Code with respect to the three most recent years and the most recent determination letter

received from the Internal Revenue Service with respect to each Plan intended to qualify under section 401 of the Internal Revenue Code of 1986, as amended (the "Code").

(c) No liability under Title IV or section 302 of ERISA has been incurred by the Company or any ERISA Affiliate that has not been satisfied in full, and no condition exists, to the Company's knowledge, that presents a risk to the Company or any ERISA Affiliate of incurring any such liability, other than liability for premiums due the Pension Benefit Guaranty Corporation (which premiums have been paid when due). Insofar as the representation made in this Section 3.12(c) applies to section 4064, 4069 or 4204 of ERISA, it is made with respect to any employee benefit plan, program, agreement or arrangement subject to Title IV of ERISA to which the Company, any Company Subsidiary or any ERISA Affiliate made, or was required to make, contributions during the six-year period ending on the last day of the most recent plan year ended before the date of this Agreement. The Pension Benefit Guaranty Corporation has not instituted proceedings to terminate any Plan and, to the Company's knowledge, no condition exists that presents a material risk that such proceedings will be instituted.

(d) Except as set forth in Section 3.12(d) of the Company Disclosure Schedule, with respect to each Plan which is subject to Title IV of ERISA ("Title IV Plan"), the present value of accrued benefits under such plan, based upon the actuarial assumptions used for funding purposes in the most recent actuarial report prepared by such plan's actuary with respect to such plan did not exceed, as of its latest valuation date, the then current value of the assets of such plan allocable to such accrued benefits.

(e) No Plan is "multiemployer pension plan" within the meaning of section 3(37) of ERISA, and no Plan is described in Section 4063(a) of ERISA.

(f) No Title IV Plan or any trust established thereunder has incurred any "accumulated funding deficiency" (as defined in section 302 of ERISA and section 412 of the Code), whether or not waived, as of the last day of the most recent fiscal year of each Title IV Plan ended prior to the Effective Time. All contributions required to be made with respect to any Plan on or prior to the Effective Time have been timely made, or have been reflected on the Financial Statements.

(g) Each Plan has been operated and administered in all material respects in accordance with its terms and applicable law, including but not limited to ERISA and the Code.

(h) Each Plan intended to be "qualified" within the meaning of section 401(a) of the Code is so qualified and the trusts maintained thereunder are exempt from taxation under section 501(a) of the Code.

(i) Except as set forth in Section 3.12(i) of the Company Disclosure Schedule, no Plan provides medical, surgical, hospitalization, death or similar benefits (whether or not insured) for employees or former employees of the Company or any Subsidiary for periods extending beyond their retirement or other termination of service, other than (i) coverage mandated by applicable law, (ii) death benefits under any "pension plan," or (iii) benefits the full cost of which is borne by the current or former employee (or his beneficiary).

(j) No amounts payable (individually or collectively and whether in cash, capital stock of the Company or other property) under any of the Plans or any other contract, agreement or arrangement with respect to which the Company or any Company Subsidiary may have any liability could fail to be deductible for federal income tax purposes by virtue of section 162(m) or section 280G of the Code or, to the knowledge of the Company, section 162(a) of the Code.

(k) The consummation of the transactions contemplated by this Agreement will not, either alone or in combination with another event, (i) entitle any current or former employee or officer of the Company or any ERISA Affiliate to severance pay, unemployment compensation or any other payment, except as expressly provided in this Agreement, or (ii) accelerate the time of payment or vesting, or increase the amount of compensation due any such employee or officer.

(l) There are no pending, or, to the knowledge of the Company, threatened or anticipated claims by or on behalf of any Plan, by any employee or beneficiary covered under any such Plan, or otherwise involving any such Plan (other than routine claims for benefits).

(m) None of the Company, any Company Subsidiary, any ERISA Affiliate, any of the Plans, any trust created thereunder, nor to the Company's knowledge, any trustee or administrator thereof has engaged in a transaction or has taken or failed to take any action in connection with which the Company, any

Company Subsidiary or any ERISA Affiliate could be subject to any material liability for either a civil penalty assessed pursuant to section 409 or 502(i) of ERISA or a tax imposed pursuant to section 4975, 4976 or 4980B of the Code.

(n) Neither the Company nor any ERISA Affiliate is a party to any agreement or understanding, whether written or unwritten, with the Pension Benefit Guaranty Corporation, the Internal Revenue Service, the Department of Labor or the Centers for Medicare & Medicaid Services. No representations or communications, oral or written, with respect to the participation, eligibility for benefits, vesting, benefit accrual or coverage under any Plan have been made to employees, directors or agents (or any of their representatives or beneficiaries) of the Company or any Company Subsidiary which are not in accordance with the terms and conditions of the Plans.

(o) No "leased employee," as that term is defined in section 414(n) of the Code, performs services for the Company or any ERISA Affiliate. The Company and each Company Subsidiary have at all times been in material compliance with applicable law regarding the classification of employees and independent contractors.

Section 3.13 Taxes.

(a) The Company and all Company Subsidiaries (i) have duly filed (or there have been filed on their behalf) with the appropriate Tax Authorities all material income and other material Tax Returns required to be filed by them, and all such Tax Returns are true, correct and complete in all material respects, and (ii) have duly and timely paid in full (or there has been paid on their behalf), or (in the case of any Taxes that are being contested in good faith by appropriate proceedings) have established reserves (in accordance with GAAP) as reflected on the Financial Statements, all income and other material Taxes that are due and payable and for which they are liable.

(b) There are no liens for Taxes upon any property or assets of the Company or any Company Subsidiary, except for liens for Taxes not yet due or for Taxes that are being contested in good faith by appropriate proceedings and for which adequate reserves have been established on the Financial Statements in accordance with GAAP.

(c) No material federal, state, local or foreign Audits are pending with regard to any income or other material Taxes or any income or other material Tax Returns of the Company or any Company Subsidiary and to the knowledge of the Company and the Company Subsidiaries no such Audit is threatened.

(d) The federal income Tax Returns of the Company and the Company Subsidiaries have been examined by the applicable Tax Authorities (or the applicable statutes of limitation for the assessment of federal income Taxes for such periods have expired) for all periods through and including the taxable year ended September 2, 1999, and as of the date hereof no material adjustments have been asserted as a result of such examinations which have not been (x) resolved and fully paid, or (y) reserved on the Financial Statements in accordance with GAAP. None of the Company or any Company Subsidiary has granted any request, agreement, consent or waiver to extend the statutory period of limitations applicable to the assessment of any Tax with respect to any Tax Return of the Company or any Company Subsidiary.

(e) Neither the Company nor any Company Subsidiary is a party to any written or oral contract, agreement or arrangement providing for the allocation, indemnification, or sharing of Taxes.

(f) Neither the Company nor any Company Subsidiary (x) has been a member of any "affiliated group" (as defined in section 1504(a) of the Code) other than the affiliated group of which Company is the "parent;" (y) is subject to Treasury Regulation section 1.1502-6 (or any similar provision under foreign, state, or local law) for any period other than in connection with the affiliated group of which the Company is the "parent;" or (z) has any liability for Taxes of any Person (other than the Company and the Company Subsidiaries) under Treasury Regulation section 1.1502-6 or any similar provision of state, local or foreign law, as a transferee or successor, by contract, operation of law or otherwise.

(g) The Company is not and has not been a "United States real property holding corporation" (as defined in section 897(c)(2) of the Code) during the applicable period specified in section 897(c)(1)(A)(ii) of the Code, and the Shares are "regularly traded on an established securities market" for purposes of section 1445(b)(6) of the Code and Treasury Regulation section 1.1445-2(c)(2).

(h) As used in this Agreement, "Audit" means any audit, assessment, or other examination relating to Taxes by any Tax Authority or any judicial or administrative proceedings relating to Taxes. "Tax" or "Taxes" means all federal, state, local, and foreign taxes, and other duties or assessments of a similar nature (whether imposed directly or through withholding and including all estimated payments of such taxes, duties or assessments), including any interest, additions to tax, or penalties applicable thereto, imposed by any Tax Authority. "Tax Authority" means the Internal Revenue Service and any other domestic or foreign governmental authority responsible for the administration of any Taxes. "Tax Returns" mean all federal, state, local, and foreign tax returns, declarations, statements, reports, schedules, forms, documents and information returns (and any amendments thereto) that are filed or required to be filed with any Tax Authority.

Section 3.14 Contracts. Except as set forth in Section 3.14 of the Company Disclosure Schedule, and except to the extent that enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, or other similar laws affecting enforcement of creditors' rights generally (regardless of whether enforcement is considered in a proceeding at law or in equity), each Contract to which the Company or any Company Subsidiary is a party or by which any of them or any of their respective properties or assets may be bound is valid, binding and enforceable and is in full force and effect, except where any failure to be valid, binding and enforceable and in full force and effect could not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, and there are no defaults or breaches thereunder by the Company or any Company Subsidiary, or to the Company's knowledge, any other party thereto, and, to the Company's knowledge, no event has occurred which, with the passage of time or the giving of notice or both, could reasonably be expected to result in such a default or breach, except for those breaches and defaults that could not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect. Except as set forth in Schedule 3.14 or as disclosed in the Company SEC Documents filed on or after November 7, 2002 and prior to the date hereof, neither the Company nor any Company Subsidiary is a party to, and none of their respective properties or assets are bound by, (i) any Contract required to be disclosed pursuant to Items 404 or 601 of Regulation S-K of the SEC, or (ii) any Contract containing covenants which limit the ability of the Company or any Company Subsidiary to compete in any line of business or which restrict the geographic area in which, or method by which, the Company or any Company Subsidiary may carry on its business.

Section 3.15 Real and Personal Property. Each of the Company and the Company Subsidiaries has good title to, or valid leasehold interests in, all its properties and assets, free and clear of all Encumbrances, except for Encumbrances that could not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect. Each of the Company and the Company Subsidiaries enjoys peaceful and undisturbed possession under all real property leases to which it is a party, except as could not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect.

Section 3.16 Intellectual Property.

(a) Except as could not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect:

(i) the Company and each Company Subsidiary own or have the right to use all Company Intellectual Property used in the Company's business as presently conducted;

(ii) the conduct of the Company's and each Company Subsidiary's business and the use of the Company Intellectual Property in connection therewith does not infringe, misappropriate, or otherwise violate any intellectual property rights or any other proprietary right of any third party, and neither the Company nor any Company Subsidiary has received notice alleging any infringement, misappropriation, or other violation by the Company or any Company Subsidiary of any such rights of any third party;

(iii) (w) the Company Intellectual Property owned by the Company or any Company Subsidiary is valid, subsisting, and in full force and effect, (x) record ownership of the Company Intellectual Property owned by the Company or any Company Subsidiary is up-to-date, (y) registrations and applications for Company Intellectual Property owned by the Company or any Company Subsidiary have been duly maintained, are subsisting, in full force and effect, and have not been cancelled, expired, or abandoned; and (z) there are no pending or, to the knowledge of the Company, threatened challenges to the validity of any Company Intellectual Property owned by the Company or any Company Subsidiary; and

(iv) the Company and each Company Subsidiary has taken reasonable steps to preserve the confidentiality of its trade secrets, its confidential, proprietary manufacturing processes, formulas, recipes, and other confidential, proprietary information.

(b) Neither the Company nor any Company Subsidiary has received written notice of or has knowledge that any third party is infringing upon, misappropriating, or otherwise violating any Company Intellectual Property rights owned by the Company or any Company Subsidiary.

(c) The consummation of the transactions contemplated herein will not alter or impair the Company's or any Company Subsidiary's rights to own or use any Company Intellectual Property.

(d) As used in this Agreement, "Company Intellectual Property" means all of the following which are used to conduct the business of the Company or any Company Subsidiary as presently conducted: (i) all copyrights, including without limitation moral rights and rights of attribution and integrity, copyrights in software and in the content contained on any Internet site, and registrations and applications for any of the foregoing; (ii) all patents and industrial designs, including without limitation any continuations, divisionals, continuations-in-part, renewals, reissues and applications for any of the foregoing; (iii) all rights of publicity and privacy, including but not limited to the use of the names, likenesses, voices, signatures, biographical information, persona and other recognizable aspects of real persons; (iv) all computer programs (whether in source code or object code form), databases, compilations and data, and all documentation related to any of the foregoing; (v) all trademarks, service marks, trade names, domain names, designs, logos, emblems, signs or insignia, slogans, other similar designations of source or origin and general intangibles of like nature, together with the goodwill of the business symbolized by any of the foregoing, registrations and applications relating to any of the foregoing; and (vi) all trade secrets (as defined under applicable law) including without limitation trade secrets of the following nature: financing and marketing information, technology, know-how, inventions, proprietary processes, formulae, algorithms, models and methodologies.

Section 3.17 Labor Matters.

(a) The Company and each Company Subsidiary are neither party to, nor bound by, any labor or collective bargaining agreement or any

other agreement with a labor union and there are no labor or collective bargaining agreements that pertain to any of the employees of the Company or any Company Subsidiary, nor are any such employees represented by any labor organization with respect to such employment. The Company and each Company Subsidiary has good labor relations and there are no controversies, grievances, or arbitrations pending, or to the knowledge of the Company, threatened between the Company or any Company Subsidiary, on the one hand, and any of their respective employees, on the other hand, which could, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect. No labor organization or group of employees of the Company or any Company Subsidiary has made a pending demand for recognition or certification, and there are no representation or certification proceedings or petitions seeking a representation proceeding presently pending or threatened in writing to be brought or filed with the National Labor Relations Board or any other labor relations tribunal or authority. The Company does not know of any labor union organizing activities with respect to any employees of the Company or any Company Subsidiary into one or more collective bargaining units.

(b) The Company and all Company Subsidiaries are in compliance with all applicable laws respecting employment and employment practices, terms and conditions of employment, health and safety, and wages and hours, including, without limitation, the Immigration Reform and Control Act, the Worker Adjustment and Retraining Notification Act, all laws respecting employment discrimination, disability rights or benefits, equal opportunity, plant closure issues, affirmative action, workers' compensation, employee benefits, severance payments, labor relations, employee leave issues, wage and hour standards, occupational safety and health requirements, unemployment insurance and related matters, and the collection and payment of withholding or social security taxes and any similar tax, and neither Company nor any Company Subsidiary are engaged in any unfair labor practice except, with respect to all of the foregoing, for any noncompliance or practices that could not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect. Neither the Company nor any Company Subsidiary are delinquent in payments to any employees of the Company or any Company Subsidiary for any services or amounts required to be reimbursed or otherwise paid to such employees.

(c) Neither the Company, nor any Company Subsidiary, nor any of their respective employees, agents or representatives has committed a material unfair labor practice as defined in the National Labor Relations Act and there is no material unfair labor practice complaint or other allegation of labor law

violation against the Company or any Company Subsidiary pending before the National Labor Relations Board or any other Governmental Entity.

(d) Since September 2, 2000, there has been no and there is no actual or, to the Company's knowledge, threatened labor dispute, strike, lockout slowdown or work stoppage against the Company or any Company Subsidiary.

(e) Except for such matters as could not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, neither Company nor any Company Subsidiary has received written notice of any actual or threatened investigation, charge or complaint against Company or any Company Subsidiary with respect to employees pending before the Equal Employment Opportunity Commission or any other Governmental Entity regarding an unlawful employment practice.

(f) The Company and each of its Subsidiaries is and has been in compliance with all notice and other requirements under the Workers' Adjustment and Retraining Notification Act and any similar state, local or foreign law.

(g) To the Company's knowledge, no employee of the Company or any Company Subsidiary is in any respect in violation of any term of any employment contract, non-disclosure agreement, noncompetition agreement, or any restrictive covenant to a former employer relating to the right of any such employee to be employed by the Company or any Company Subsidiary because of the nature of the business conducted or presently proposed to be conducted by the Company or any Company Subsidiary or to the use of trade secrets or proprietary information of others.

Section 3.18 Compliance with Laws. Except as could not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect, (a) the Company and the Company Subsidiaries have complied in a timely manner with all laws, rules and regulations, ordinances, judgments, decrees, orders, writs and injunctions of all Governmental Entities which affect the business, properties or assets of the Company or the Company Subsidiaries, (b) no written notice, charge, claim, action or assertion has been received by the Company or any Company Subsidiary or has been filed, commenced or, to the Company's knowledge, threatened against the Company or any Company Subsidiary alleging any violation of any of the foregoing, (c) all licenses, permits and approvals required under such

laws, rules and regulations are in full force and effect and (d) there is no action, proceeding or investigation pending or, to the knowledge of the Company, threatened regarding the suspension, revocation or cancellation of any such licenses, permits and approvals.

Section 3.19 Condition of Assets. All of the property, plant and equipment of the Company and each Company Subsidiary has in all material respects been maintained in reasonable operating condition and repair, ordinary wear and tear excepted, and is in all material respects sufficient to permit the Company and each Company Subsidiary to conduct their operations in the ordinary course of business in a manner consistent with their past practices.

Section 3.20 Customers and Suppliers. Since May 31, 2003, there has been no termination, cancellation or material curtailment of the business relationship of the Company or any Company Subsidiary with any material customer or supplier or group of affiliated customers or suppliers nor has any material customer, supplier or group of affiliated customers or suppliers indicated an intent to so terminate, cancel or materially curtail its business relationship with the Company or any Company Subsidiary.

Section 3.21 Environmental Matters.

(a) Except as could not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect:

(i) the Company and each Company Subsidiary has been and is in compliance with all applicable Environmental Laws;

(ii) there is no pending or, to the Company's knowledge, threatened claim, lawsuit, or administrative proceeding against the Company or any Company Subsidiary, under or pursuant to any Environmental Law;

(iii) to the Company's knowledge, with respect to the real property that is currently owned, leased or operated by the Company or any Company Subsidiary, there have been no spills, discharges or releases (as such term is defined by the Comprehensive Environmental Response, Compensation and Liability Act, 42, U.S.C. 9601, et seq.) of Hazardous

Substances or any other contaminant or pollutant on or underneath any of such real property;

(iv) to the Company's knowledge, with respect to real property that was formerly owned, leased or operated by the Company or any Company Subsidiary or any of their predecessors in interest, there were no spills, discharges or releases (as such term is defined by the Comprehensive Environmental Response, Compensation and Liability Act, 42, U.S.C. 9601, et seq.) of Hazardous Substances or any other contaminant or pollutant on or underneath any of such real property during or prior to the Company's or any Company Subsidiary's ownership or operation of such real property; and

(v) to the Company's knowledge, neither the Company nor any Company Subsidiary has disposed or arranged for the disposal of Hazardous Substances (or any waste or substance containing Hazardous Substances) at any location that: (x) is listed on the Federal National Priorities List ("NPL") or identified on the Comprehensive Environmental Response, Compensation, and Liability Information System ("CERCLIS"), each established pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, 42, U.S.C. 9601, et seq.; (y) is listed on any state or foreign list of hazardous waste sites that is analogous to the NPL or CERCLIS; or (z) has been subject to environmental investigation or remediation.

(b) Neither the Company nor any Company Subsidiary has received written notice from any Person, including, but not limited to, any Governmental Entity, alleging that the Company or any Company Subsidiary has been or is in violation or potentially in violation of any applicable Environmental Law or otherwise may be liable under any applicable Environmental Law. Neither the Company nor any Company Subsidiary has received any request for information from any Person, including but not limited to any Governmental Entity, related to liability under or compliance with any applicable Environmental Law.

(c) There is no Environmental Claim pending or, to the knowledge of the Company, threatened against the Company or any Company Subsidiary or, to the knowledge of the Company, against any Person whose liability for any Environmental Claim the Company or any Company Subsidiary has retained or assumed either contractually or by operation of law and there are no past or

present actions, activities, circumstances, conditions, events or incidents, including, without limitation, the release, emission, discharge, presence or disposal of any Hazardous Substance that could form the basis of any Environmental Claim against the Company or any Company Subsidiary or, to the knowledge of the Company, against any Person whose liability for any Environmental Claim the Company or any Company Subsidiary has retained or assumed whether contractually or by operation of law.

(d) Neither the Company nor any Company Subsidiary has entered into any written agreement or incurred any legal or monetary obligation that may require them to pay to, reimburse, guarantee, pledge, defend, indemnify or hold harmless any Person from or against any liabilities or costs arising out of or related to the generation, manufacture, use, transportation or disposal of Hazardous Substances, or otherwise arising in connection with or under Environmental Laws, other than in each case exceptions which could not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect.

(e) The following terms shall have the following meanings for the purposes of this Agreement:

(i) "Environmental Laws" shall mean all foreign, Federal, state and local laws, regulations, rules and ordinances relating to pollution or protection of the environment or human health and safety, including, without limitation, laws relating to releases or threatened releases of Hazardous Substances into the indoor or outdoor environment (including, without limitation, ambient air, surface water, groundwater, land, surface and subsurface strata) or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, release, transport or handling of Hazardous Substances; all laws and regulations with regard to recordkeeping, notification, disclosure and reporting requirements respecting Hazardous Substances; all laws relating to endangered or threatened species of fish, wildlife and plants and the management or use of natural resources; and common law to the extent it relates to or applies to exposure to or impact of Hazardous Substances on persons or property.

(ii) "Environmental Claim" shall mean any claim, action, cause of action, investigation or notice (written or oral) by any person or entity alleging potential liability (including, without limitation, potential liability for investigatory costs, cleanup costs, governmental response costs,

natural resource damages, property damages, personal injuries or penalties) arising out of, based on or resulting from (a) the presence, or release into the environment, of an Hazardous Substance at any location, whether or not owned or operated by the Company or any Company Subsidiary or (b) circumstances forming the basis of any violation, or alleged violation, of any Environmental Law.

(iii) "Hazardous Substances" shall mean (a) any petrochemical or petroleum products, radioactive materials, asbestos in any form that is or could become friable, urea formaldehyde foam insulation, transformers or other equipment that contain dielectric fluid containing polychlorinated biphenyls; (b) any chemicals, materials or substances defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "restricted hazardous materials," "extremely hazardous substances," "toxic substances," "contaminants" or "pollutants" or words of similar meaning and regulatory effect; or (c) any other chemical, material or substance, exposure to which is prohibited, limited, or regulated by any applicable Environmental Law.

Section 3.22 Insurance. All insurance policies of the Company and the Company Subsidiaries are in full force and effect, all premiums thereunder have been paid and the Company and the Company Subsidiaries are otherwise in compliance in all material respects with the terms and provisions of such policies. To the Company's knowledge, all such insurance policies cover risks of the nature normally insured against by entities in the same or similar lines of business in coverage amounts typically and reasonably carried by such entities. Furthermore, (a) neither the Company nor any Company Subsidiary has received any notice of cancellation or non-renewal of any such policy or arrangement nor is the termination of any such policies or arrangements threatened, (b) there is no claim pending under any of such policies or arrangements as to which coverage has been questioned, denied or disputed by the underwriters of such policies or arrangements, (c) neither the Company nor any Company Subsidiary has received any notice from any of its insurance carriers that any insurance premiums will be increased in the future or that any insurance coverage presently provided for will not be available to the Company or any Company Subsidiary in the future on substantially the same terms as now in effect and (d) none of such policies or arrangements provides for any retrospective premium adjustment, experienced-based liability or loss sharing arrangement affecting the Company or any Company Subsidiary.

Section 3.23 Certain Business Practices. Neither the Company nor any Company Subsidiary, and no director, officer, agent or employee of the Company or any Company Subsidiary, has, to the Company's knowledge (i) used any funds of the Company or any Company Subsidiary for unlawful contributions, gifts, entertainment or other unlawful expenses relating to political activity, (ii) made any unlawful payment to foreign or domestic government officials or employees or to foreign or domestic political parties or campaigns or violated any provision of the Foreign Corrupt Practices Act of 1977, as amended, on behalf of the Company or any Company Subsidiary or (iii) made any other unlawful payment on behalf of the Company or any Company Subsidiary.

Section 3.24 Schedule 14D-9 and the Proxy Statement; Information in the Offer Documents. The Schedule 14D-9 and the information supplied by the Company for inclusion in the Offer Documents, will not, at the respective times the Offer Documents and the Schedule 14D-9 or any amendments or supplements thereto are filed with the SEC or are first published, sent or given to stockholders of the Company, as the case may be, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading. The Proxy Statement, if any, will not, at the time that the Proxy Statement or any amendment or supplement thereto is first mailed to the stockholders of the Company, at the time of the meeting of the stockholders of the Company to be held in connection with the Merger and at the Effective Time, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading. Notwithstanding the foregoing, the Company makes no representation or warranty with respect to statements made in the Schedule 14D-9 and the Proxy Statement, if any, based on information furnished in writing by Parent or the Purchaser for inclusion therein. The Schedule 14D-9, and the Proxy Statement, if any, will comply in all material respects with the provisions of applicable federal securities laws.

Section 3.25 Opinion of Financial Advisor. The Company has received the written opinion of Mann, Armistead & Epperson, Ltd. (the "Company Financial Advisor"), dated August 12, 2003, to the effect that, as of such date, the consideration to be received in the Offer and the Merger by the Company's stockholders is fair to the Company's stockholders from a financial point of view, and a copy of such opinion has been delivered to Parent and the Purchaser. The

Company has been authorized by the Company Financial Advisor to permit the inclusion of such opinion in its entirety and a discussion of the Company Financial Advisor's analysis in preparing such opinion in the Offer Documents, the Schedule 14D-9 and the Proxy Statement.

Section 3.26 Brokers. No broker, investment banker, financial advisor or other person, other than the Company Financial Advisor, the fees and expenses of which will be paid by the Company, is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the Transactions based upon arrangements made by or on behalf of Company or the Purchaser. True and correct copies of all agreements between the Company and the Company Financial Advisor, including, without limitation, any fee arrangements, are included in Section 3.26 of the Company Disclosure Schedule.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF PARENT AND THE PURCHASER

Parent and the Purchaser represent and warrant to the Company as follows:

Section 4.1 Organization. Each of Parent and the Purchaser is a corporation duly organized and validly existing and in good standing under the laws of the jurisdiction of its respective incorporation and has full corporate power and authority and all necessary governmental licenses, authorizations, permits, consents and approvals to own, lease and operate its properties and to carry on its business as is now being conducted, except where the failure to be so organized and existing and in good standing or to have such power, authority, and governmental licenses, authorizations, permits, consents and approvals would not, individually or in the aggregate, impair in any material respect the ability of each of Parent and the Purchaser, as the case may be, to perform its obligations under this Agreement, or prevent or materially delay the consummation of any of the Transactions.

Section 4.2 Authorization; Validity of Agreement; Necessary Action. Each of Parent and the Purchaser has full corporate power and authority to execute and deliver this Agreement and to consummate the Transactions. The execution, delivery and performance by Parent and the Purchaser of this Agreement and the consummation of the Transactions have been duly authorized by the boards

of directors of each of Parent and the Purchaser, and by Parent as the sole stockholder of the Purchaser, and no other corporate authority or approval on the part of Parent or the Purchaser is necessary to authorize the execution and delivery by Parent and the Purchaser of this Agreement and the consummation of the Transactions. This Agreement has been duly and validly executed and delivered by Parent and the Purchaser and, assuming due and valid authorization, execution and delivery hereof by the Company, is the valid and binding obligation of each of Parent and the Purchaser enforceable against each of them in accordance with its terms.

Section 4.3 Consents and Approvals; No Violations. None of the execution, delivery or performance of this Agreement by Parent or the Purchaser, the consummation by Parent or the Purchaser of the Transactions, or compliance by Parent or the Purchaser with any of the provisions of this Agreement will (a) conflict with or result in any breach of any provision of the Certificate of Incorporation, the Bylaws or similar organizational documents of Parent or the Purchaser, (b) violate, conflict with or result in a breach of any provisions under any of the terms, conditions or provisions of any Contract to which Parent or the Purchaser is a party or by which either of them or any of their respective properties or assets may be bound, (c) require any material filing by Parent or the Purchaser with, or permit, authorization, consent or approval of, any Governmental Entity (except for (i) compliance with any applicable requirements of the Exchange Act and Securities Act, (ii) any filing pursuant to the DGCL, (iii) the filing with the SEC and the NASDAQ Stock Market of (A) the Schedule TO, (B) the Proxy Statement, if stockholder approval is required by law, and (C) such reports under Section 13(a) of the Exchange Act as may be required in connection with this Agreement and the Transactions, or (iv) such filings and approvals as may be required by any applicable state securities, blue sky or takeover laws), or (d) violate any order, writ, injunction, decree, statute, rule or regulation applicable to Parent or Purchaser, or any of their respective properties or assets, except in the case of clauses (b) or (c) such violations, breaches or defaults which would not, individually or in the aggregate, impair in any material respect the ability of each of Parent and the Purchaser to perform its obligations under this Agreement, as the case may be, or prevent or materially delay the consummation of the Transactions.

Section 4.4 Offer Documents; Information in the Proxy Statement. The Offer Documents will not, at the time the Offer Documents are filed with the SEC or first published, sent or given to the Company's stockholders, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements made therein, in the light

of the circumstances under which they were made, not misleading, except that no representation is made by Parent or the Purchaser with respect to information furnished by the Company for inclusion in the Offer Documents. None of the information supplied by Parent or the Purchaser in writing expressly for inclusion in the Proxy Statement will, at the time the Proxy Statement or any amendment or supplement thereto is first mailed to stockholders of the Company, at the time of the meeting of stockholders Company to be held in connection with the Merger, and at the Effective Time, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements made therein, in light of the circumstances under which they are made, not misleading. The Offer Documents will comply in all material respects with the provisions of applicable federal securities laws.

Section 4.5 Brokers. No broker, investment banker, financial advisor or other Person, other than Braydon Partners, LLC, the fees and expenses of which will be paid by Parent, is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the Transactions based upon arrangements made by or on behalf of Parent or the Purchaser.

Section 4.6 Financing. Parent has sufficient funds to consummate the Transactions, including payment in full of the Offer Price for all Shares validly tendered into the Offer or outstanding at the Effective Time.

Section 4.7 Purchaser. The Purchaser was formed solely for the purpose of engaging in the Transactions, and the Purchaser has engaged in no business activity, has conducted no operations and has incurred no liability, other than in connection with the Transactions.

ARTICLE V

CONDUCT OF BUSINESS PENDING THE MERGER

Section 5.1 Interim Operations of the Company. The Company covenants and agrees that, except as expressly contemplated or permitted by this Agreement or set forth in Section 5.1 of the Company Disclosure Schedule, after the date hereof, and prior to the earlier of (x) the termination of this Agreement in accordance with Article VIII and (y) the time the designees of Parent constitute a majority of the Company Board of Directors:

(a) the business of the Company and the Company Subsidiaries shall be conducted only in the ordinary course of business consistent with past practice, and each of the Company and the Company Subsidiaries shall use its reasonable best efforts to preserve its present business organization intact, to keep available the services of its current officers, employees and consultants, and to maintain reasonably good relations with customers, suppliers, employees, contractors, distributors and others having business dealings with it;

(b) neither the Company nor any Company Subsidiary shall, (i) directly or indirectly, except with respect to the Company, for the issuance of Shares upon the exercise of the Options outstanding on the date hereof pursuant to the terms of such Options, issue, sell, transfer, dispose of, encumber or pledge any shares of capital stock of the Company or any capital stock or other equity interests of any Company Subsidiary, securities convertible into or exchangeable for, or options, warrants or rights of any kind to acquire any shares of such capital stock or other equity interests or any other ownership interest; (ii) amend or otherwise change its Certificate of Incorporation or Bylaws or similar organizational documents; (iii) split, combine, reclassify, subdivide or redeem, or purchase or otherwise acquire, directly or indirectly, any of its capital stock or other equity interests; or (iv) declare, set aside or pay any dividend or other distribution payable in cash, stock or property with respect to its capital stock;

(c) neither the Company nor any Company Subsidiary will (i) incur or assume indebtedness (which shall not include trade payables) (except for indebtedness for working capital incurred under the revolving portion of Company's existing credit facility in the ordinary course of business with the aggregate amount of such indebtedness not to exceed $26,500,000 at any one time) or issue any debt securities; (ii) assume, guarantee, endorse or otherwise become liable or responsible (whether directly, contingently or otherwise) for the obligations of any other Person (other than a Company Subsidiary); (iii) make any loans, advances or capital contributions to, or investments in, any other Person (other than the Company or any Company Subsidiary); (iv) acquire (by merger, consolidation, acquisition of stock or assets or otherwise) any corporation, partnership or other business organization or division thereof or any equity interest therein; (v) transfer, lease, license, sell, mortgage, pledge, dispose of, or encumber any of its material assets or properties, other than in the ordinary course of business consistent with past practice;

(d) neither the Company nor any Company Subsidiary shall (i) change the compensation or benefits payable or to become payable to any of

its officers, directors, employees agents or consultants (other than as required by any collective bargaining agreement); (ii) enter into or amend any employment, severance, consulting, termination or other agreement related to employment or employee benefit plan (except as required by law); or (iii) make any loans to any of its officers, directors, employees, agents, consultants or affiliates or change its existing borrowing or lending arrangements for or on behalf of any of such persons pursuant to an employee benefit plan or otherwise;

(e) neither the Company nor any Company Subsidiary shall (i) pay or arrange for payment of any pension, retirement allowance or other employee benefit pursuant to any existing plan, agreement or arrangement to any officer, director, employee or affiliate or pay or make any arrangement for payment to any officers, directors, employees or affiliates of the Company of any amount relating to unused vacation days, except payments and accruals made in the ordinary course of business consistent with past practice; (ii) except as may be required pursuant to the terms of a Plan or agreement as in effect as of the date of this Agreement, adopt or pay, grant, issue, accelerate or accrue salary or other payments or benefits pursuant to any pension, profit-sharing, bonus, extra compensation, incentive, deferred compensation, stock purchase, stock option, stock appreciation right, group insurance, severance pay, retirement or other employee benefit plan, agreement or arrangement, or any employment or consulting agreement with or for the benefit of any director, officer or employee, whether past or present, or (iii) amend in any material respect any such existing Plan, agreement or arrangement;

(f) neither the Company nor any Company Subsidiary will, (i) modify or amend in any material respect or terminate any material Contract to which the Company or any Company Subsidiary is a party or by which any of them or any of their respective properties or assets may be bound; (ii) waive, release or assign any material rights or claims under any of such material Contracts; or (iii) enter into any material Contract;

(g) neither the Company nor any Company Subsidiary will (i) change any of the accounting methods used by it except for such changes required by GAAP, (ii) make any Tax election or change any Tax election already made, adopt any Tax accounting method, (iii) change any Tax accounting method, enter into any closing agreement or (iv) settle any claim or assessment relating to Taxes or consent to any claim or assessment relating to Taxes or any waiver of the statute of limitations for any such claim or assessment;

(h) neither the Company nor any Company Subsidiary will pay, discharge or satisfy any claims, liabilities or obligations (whether absolute, accrued, contingent or otherwise), other than the payment, discharge or satisfaction of any such claims, liabilities or obligations, in the ordinary course of business consistent with past practice, or of claims, liabilities or obligations reflected or reserved against in the Financial Statements of the Company for the period ended May 31, 2003 or incurred since May 31, 2003 in the ordinary course of business consistent with past practice;

(i) neither the Company nor any Company Subsidiary will (i) settle or commence any action, suit, claim, litigation or other proceeding involving an amount in excess of $50,000 or, in the aggregate, an amount in excess of $250,000 or (ii) enter into any consent decree, injunction or other similar restraint or form of equitable relief in settlement of any action, suit, claim, litigation or other proceeding;

(j) neither the Company nor any Company Subsidiary will adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization of the Company or any Company Subsidiary (other than, with respect to the Company, the Merger);

(k) neither the Company nor any Company Subsidiary will take any action that would reasonably be expected to result in any of the conditions to the Merger set forth in Article VII or any of the conditions to the Offer set forth in Annex I not being satisfied or that would reasonably be expected to materially delay the consummation of, or materially impair the ability of the Company to consummate, the Transactions in accordance with the terms hereof;

(l) neither the Company nor any Company Subsidiary shall make any capital expenditure which (i) exceeds $30,000 in the aggregate for the remainder of the fiscal year 2003 or (ii) is not in all material respects in accordance with the annual budget for the fiscal year 2004, a true and correct copy of which is attached to Section 5.1(l) of the Company Disclosure Schedule; and

(m) neither the Company nor any Company Subsidiary will enter into any agreement, contract, commitment or arrangement to do any of the foregoing, or authorize, recommend, propose or announce an intention to do any of the foregoing.

Section 5.2 No Solicitation.

(a) The Company agrees that it shall immediately cease and cause to be terminated all existing discussions, negotiations and communications with any Persons with respect to any tender or exchange offer involving the Company, any proposal for a merger, consolidation or other business combination involving the Company, any proposal or offer to acquire in any manner a substantial equity interest in, or a substantial portion of the business or assets of, the Company, any proposal or offer with respect to any recapitalization or restructuring with respect to the Company or any proposal or offer with respect to any other transaction similar to any of the foregoing with respect to the Company other than the Transactions contemplated by this Agreement (each an "Acquisition Proposal"). Except as provided in Section 5.2(b), from the date of this Agreement until the earlier of the Effective Time, the termination of this Agreement and the time at which directors designated by Parent and/or the Purchaser constitute a majority of the directors on the Company Board of Directors, the Company shall not and shall not authorize or permit its officers, directors, employees, investment bankers, attorneys, accountants or other agents (collectively, "Representatives") to directly or indirectly (i) initiate, solicit or encourage, or take any action to facilitate the making of, any offer or proposal which constitutes or is reasonably likely to lead to any Acquisition Proposal, (ii) enter into any agreement with respect to any Acquisition Proposal, or (iii) in the event of an unsolicited Acquisition Proposal for the Company, engage in negotiations or discussions with, or provide any information or data to, any Person (other than Parent or any of its affiliates or representatives) relating to any Acquisition Proposal. The Company shall promptly notify Parent if any proposals are received by, any information is requested from, or any negotiations or discussions are sought to be initiated or continued with the Company or its Representatives, in each case, in connection with an Acquisition Proposal or the possibility or consideration of making an Acquisition Proposal, which notice shall identify the name of the Person making such proposal or request or seeking such negotiations or discussions, the material terms and conditions of any offer or proposal and any subsequent changes to such terms and conditions. Any violation of this Section 5.2 by any of the Company's Representatives (other than violations that relate to the delivery of notice and are not material), whether or not such Representative is so authorized and whether or not such Representative is purporting to act on behalf of the Company or otherwise, shall be deemed to be a material breach of this Agreement by the Company.

(b) Notwithstanding the foregoing, prior to the acceptance of Shares pursuant to the Offer, the Company may furnish information concerning its business, properties or assets to any Person pursuant to a confidentiality agreement with terms no less favorable to the Company than those contained in the Confidentiality Agreement, dated December 5, 2002 and the Confidentiality Agreement, dated May 14, 2003, entered into between Parent and the Company (together, the "Confidentiality Agreements") and may negotiate and participate in discussions and negotiations with such Person concerning an Acquisition Proposal if, but only if, (x) such Acquisition Proposal provides for consideration to be received by holders of all, but not less than all, of the issued and outstanding Shares and is reasonably likely to be consummated promptly; (y) such Person has on an unsolicited basis, and in the absence of any violation of this Section 5.2 by the Company or any of its Representatives, submitted a bona fide, written proposal to the Company relating to any such transaction which the Board of Directors determines in good faith, after receiving advice from the Company Financial Advisor or other recognized investment banking firm, involves consideration to the holders of the Shares that is superior to the consideration offered pursuant to the Offer and otherwise represents a superior transaction to the Offer and the Merger and which is not conditioned upon obtaining financing, and (z) in the good faith opinion of the Company Board of Directors, after consultation with outside legal counsel to the Company, providing such information or access or engaging in such discussions or negotiations is in the best interests of the Company and its stockholders and the failure to provide such information or access or to engage in such discussions or negotiations would cause the Company Board of Directors to violate its fiduciary duties to the Company's stockholders under applicable law (an Acquisition Proposal which satisfies clauses (x), (y) and (z) being referred to herein as a "Superior Proposal"). The Company shall promptly, and in any event within one business day following its determination that an Acquisition Proposal is a Superior Proposal and prior to providing any such party with any material non-public information, notify Parent of the receipt of the same, which notice shall include the name of the Person making such Superior Proposal, the material terms and conditions of such Superior Proposal and any subsequent changes to such terms and conditions. The Company shall promptly provide to Parent any material non-public information regarding the Company provided to any other party which was not previously provided to Parent, such additional information to be provided no later than the date of provision of such information to such other party.

(c) Except as set forth herein, neither the Company Board of Directors nor any committee thereof shall (i) withdraw or modify, or propose to

withdraw or modify, in a manner adverse to the Transactions, to Parent or to the Purchaser, the approval or recommendation by the Company Board of Directors of the Offer, this Agreement or the Merger, (ii) approve or recommend, or propose to approve or recommend, any Acquisition Proposal or (iii) enter into any agreement with respect to any Acquisition Proposal. Notwithstanding the foregoing, prior to the time of acceptance for payment of Shares in the Offer, the Company Board of Directors may (subject to the terms of this and the following sentence) withdraw or modify its approval or recommendation of the Offer, this Agreement or the Merger, approve or recommend a Superior Proposal, or enter into an agreement with respect to a Superior Proposal (an "Acquisition Agreement"), in each case at any time after the fifth business day following the Company's delivery to Parent of written notice advising Parent that the Company Board of Directors has received a Superior Proposal, specifying the material terms and conditions of such Superior Proposal and identifying the Person making such Superior Proposal; provided, however, that the Company shall not enter into an Acquisition Agreement unless the Company complies with Section 5.2(d). Any such withdrawal, modification or change of the recommendation of the Company Board of Directors, the approval or recommendation or proposed approval or recommendation of any Superior Proposal or the entry by the Company into any Acquisition Agreement shall not change the approval of the Company Board of Directors for purposes of causing any state takeover statute or other state law to be applicable to the Transactions (including each of the Offer, the Merger and the Tender and Voting Agreements).

(d) The Company may terminate this Agreement and enter into an Acquisition Agreement, provided that, prior to any such termination, (i) the Company has provided Parent written notice that it intends to terminate this Agreement pursuant to this Section 5.2(d), identifying the Superior Proposal then determined to be more favorable and the parties thereto and delivering a copy of the Acquisition Agreement for such Superior Proposal in the form to be entered into, (ii) within a period of five full business days following the delivery of the notice referred to in clause (i) above, Parent does not propose adjustments in the terms and conditions of this Agreement and the Company shall have caused its financial and legal advisors to negotiate with Parent in good faith such proposed adjustments in the terms and conditions of this Agreement which the Company Board of Directors determines in its good faith judgment (after receiving the advice of its financial advisor) to be as favorable to the Company's stockholders as such Superior Proposal, and (iii) at least five full business days after the Company has delivered the notice referred to in clause (i) above, the Company delivers to Parent (A) a written notice of

termination of this Agreement pursuant to this Section 5.2(d) and (B) a wire transfer of immediately available funds in the amount of the Termination Fee.

ARTICLE VI

ADDITIONAL AGREEMENTS

Section 6.1 Notification of Certain Matters. The Company shall give prompt notice to Parent, and Parent shall give prompt notice to the Company, of (a) the occurrence or non-occurrence of any event whose occurrence or non-occurrence, as the case may be, could reasonably be expected to cause any condition set forth in Annex I to not be satisfied at any time from the date hereof to the date the Purchaser purchases Shares pursuant to the Offer and (b) any material failure of the Company, the Purchaser or Parent, as the case may be, to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder; provided, however, that the delivery of any notice pursuant to this Section 6.1 shall not limit or otherwise affect the remedies available hereunder to the party receiving such notice or the representations or warranties of the parties or the conditions to the obligations of the parties hereto.

Section 6.2 Access; Confidentiality. From the date hereof until the Effective Time, upon reasonable notice and subject to the terms of the Confidentiality Agreements, the Company shall (and shall cause each of the Company Subsidiaries to) afford to the officers, employees, accountants, counsel, financing sources and other representatives of Parent and the Purchaser, reasonable access, during normal business hours to all of its officers, employees, agents, properties, books, agreements and records and, during such period, the Company shall (and shall cause each of the Company Subsidiaries to) furnish promptly to Parent and the Purchaser (a) a copy of each report, schedule, registration statement and other document filed by it pursuant to the requirements of federal securities laws and (b) all other information concerning its business, properties and personnel as Parent or the Purchaser may reasonably request. Parent and the Purchaser will hold any information obtained pursuant to this Section 6.2 in accordance with the terms of the Confidentiality Agreements. Notwithstanding the foregoing, the parties (and each employee, representative, or other agent of the parties) may disclose to any and all Persons, without limitation of any kind, the tax treatment and any facts that may be relevant to the tax structure of the transactions contemplated by this Agreement beginning on the earliest of (x) the date of the public announcement of discussions relating to the transactions contemplated by this Agreement, (y) the date of public

announcement of the transactions contemplated by this Agreement or (z) the date of the execution of this Agreement (with or without conditions); provided, however, that neither party (nor any employee, representative or agent thereof) may disclose any other information that is not relevant to understanding the tax treatment and tax structure of the transactions contemplated by this Agreement (including the identity of any party and any information that could lead another to determine the identity of any party), or any other information to the extent that such disclosure could result in a violation of any federal or state securities law. No investigation pursuant to this Section 6.2 shall affect any representation or warranty made by the parties hereunder.

Section 6.3 Publicity. Each of Parent and the Company shall consult with the other regarding their initial press releases with respect to the execution of this Agreement. Thereafter, so long as this Agreement is in effect, neither the Company nor Parent, nor any of their respective affiliates, shall issue of any press release or other announcement with respect to the Transactions or this Agreement without the prior consent of the other party (such consent not to be unreasonably withheld), except as such press release or other announcement may be required by law or the rules of a national securities exchange or trading market, in which case the party required to make the release or announcement shall use its reasonable best efforts to provide the other party with a reasonable opportunity to review and comment on such release or announcement in advance of its issuance.

Section 6.4 Insurance and Indemnification. (a) The Certificate of Incorporation and the By-laws of the Surviving Corporation shall contain provisions no less favorable with respect to indemnification and elimination of liability that are set forth in the Certificate of Incorporation and the By-laws of the Company, which provisions shall not be amended, repealed or otherwise modified for a period of six (6) years from the Effective Time in any manner that would affect adversely the rights of individuals, who were directors, officers, employees or agents of the Company at or prior to the Effective Time, unless such modification shall be required by law.

(b) For a period of six (6) years after the Effective Time, Parent and the Surviving Corporation shall, jointly and severally, indemnify, defend and hold harmless each person who is now, or has been at any time prior to the date of this Agreement or who becomes prior to the Effective Time, an officer or director of the Company or any Company Subsidiary (collectively, the "Indemnified Parties") against all expenses (including reasonable attorneys' fees), judgements, and amounts paid in settlement actually and reasonably incurred in connection with any threatened

or actual claim, action, suit, proceeding or investigation (a "Claim") by reason of the fact that the Indemnified Party is or was a director or officer of the Company or any Company Subsidiary and pertaining to any matter existing or arising out of actions or omissions occurring at or prior to the Effective Time including, without limitation, any Claim arising out of this Agreement or any of the Transactions, whether asserted or claimed prior to, at or after the Effective Time; provided, however, that neither Parent nor the Surviving Corporation shall be required to indemnify any Indemnified Party pursuant hereto if it shall be determined that the Indemnified Party acted in bad faith or not in a manner such party believed to be in or not opposed to the best interests of the Company. Parent and the Surviving Corporation shall also, jointly and severally, advance expenses as incurred by Indemnified Parties to the fullest extent permitted under applicable law provided the person to whom such advances are made provides an undertaking to repay such advances if it is ultimately determined that such person is not entitled to indemnification. Notwithstanding the foregoing, (i) nothing contained in this Section 6.4 shall be deemed to grant any right to any Indemnified Party which is not permitted to be granted to an officer or director of the Company under Delaware law, assuming for such purposes that the Company's Certificate of Incorporation and Bylaws provide for the maximum indemnification permitted by law, and (ii) no Indemnified Party shall be entitled to indemnification in connection with any Claim initiated by the Indemnified Party.

(c) Without limiting any of the obligations of the Surviving Corporation set forth elsewhere in this Section 6.4, Parent shall maintain in effect, during the three (3)-year period commencing as of the Effective Time, a policy of directors' and officers' liability insurance for the benefit of each of the Indemnified Parties providing coverage and containing terms no less advantageous to the Indemnified Parties than the coverage and terms of the Company's existing policy of directors' and officers' liability insurance; provided, however, that Parent shall not be required to pay a per annum premium in excess of 150% of the per annum premium that the Company currently pays for its existing policy of directors' and officers' liability insurance (it being understood that, if the premium required to be paid by Parent for such policy would exceed such 150% amount, then the coverage of such policy shall be reduced to the maximum amount of coverage, if any, that may be obtained for a per annum premium in such 150% amount, and that if no such policy can be obtained for such 150% amount, Parent shall be relieved of its obligations to the extent such policy is unavailable), which annual premium the Company represents and warrants is currently $45,410; provided further, however, that, prior to the Effective Time, the Company, with the consent of Parent, may purchase insurance for such three-year period on a prepaid non-cancelable basis, so

long as the premium for such three-year period is not in excess of 200% of the per annum premium that the Company currently pays for its existing policy of directors' and officers' liability insurance in which case, Parent shall have no obligations to maintain such insurance.

Section 6.5 Third Party Standstill Agreements. During the period from the date of this Agreement through the Effective Time, the Company shall enforce and shall not terminate, amend, modify or waive any standstill provision of any confidentiality or standstill agreement between the Company and other parties entered into prior to the date hereof.

Section 6.6 Reasonable Best Efforts. Upon the terms and subject to the conditions of this Agreement, Parent, the Purchaser and the Company agree to use their respective reasonable best efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable under applicable laws to consummate and make effective the Transactions as promptly as practicable including, but not limited to, using their respective reasonable best effort to obtain any requisite approvals, consents, orders, exemptions or waivers by any third Person or Governmental Entity in connection with the Transactions and to fulfill the conditions to the Offer and the Merger.

Section 6.7 State Takeover Laws. If any state takeover statute becomes or is deemed to become applicable to the Company or the Transactions, then the Company Board of Directors shall take all actions necessary to render such statutes inapplicable to the foregoing.

Section 6.8 Employee Benefits.

(a) Parent agrees that, during the period commencing at the Effective Time and ending on the date which is one year after the Effective Time, the employees of the Company or any Company Subsidiary immediately before the Effective Time (the "Company Employees") will continue to be provided with salary and benefits under employee benefit plans (other than defined benefit pension plans, plans providing for retiree medical benefits, incentive pay plans, plans that provide equity-based compensation and plans that provide for payments or benefits upon a change in control) that are not substantially less favorable in the aggregate than the benefits provided by the Company and any Company Subsidiary to Company Employees under the Plans listed in Section 3.12(a) of the Company Disclosure Schedule as in effect immediately before the Effective Time (excluding defined

benefit pension plans, plans providing for retiree medical benefits, incentive pay plans, plans that provide equity-based compensation and plans that provide for payments or benefits upon a change in control); provided, however, that Company Employees covered by a collective bargaining agreement shall not be subject to the foregoing sentence, but shall be subject to the applicable collective bargaining agreement.

(b) Neither this Section 6.8 nor any other provision of this Agreement shall (i) limit the ability or right of the Company and its Subsidiaries to terminate the employment of any of their respective employees on or after the Closing Date (subject to any rights of any such employees pursuant to any contract, agreement, arrangement, policy, plan or commitment) or (ii) provided that the Surviving Corporation and Parent comply with Section 6.8(a), limit the ability or right of Parent, the Company or any of their Subsidiaries on or after the Closing Date to modify, amend or terminate any Plan or any other employee benefit plan, program or agreement they may maintain or establish or to establish any such plan, program or agreement.

(c) For purposes of all employee benefit plans, programs and agreements maintained by or contributed to by Parent and its Subsidiaries (including, after Closing, the Surviving Corporation), Parent shall, or shall cause its Subsidiaries to cause each such plan, program or arrangement to treat the service with the Company or its Subsidiaries immediately prior to the Closing of any Company Employee (to the same extent such service is recognized under analogous plans, programs or arrangements of the Company or its affiliates prior to the closing) as service rendered to Parent or its Subsidiaries, as the case may be, for all purposes; provided, however, that (i) such crediting of service shall not operate to duplicate any benefit or the funding of such benefit under any plan, or (ii) require the crediting of past service for benefit accrual purposes under any defined benefit pension plan. Company Employees shall also be given credit for any deductible or co-payment amounts paid in respect of the plan year in which the Closing occurs, to the extent that, following the Closing, they participate in any other plan for which deductibles or co-payments are required. Parent shall also cause each Parent Plan (as hereinafter defined below) to waive any preexisting condition which was waived under the terms of any Plan immediately prior to the Closing or waiting period limitation which would otherwise be applicable to a Company Employee on or after the Closing. For purposes of this Agreement, a "Parent Plan" shall mean such employee benefit plan, as defined in Section 3(3) of ERISA or other employee benefit or fringe benefit program, that may be in effect generally for employees of Company and the

Company Subsidiaries from time to time. The requirement of this Section 6.8(c) shall not apply to any Company Employee covered by a collective bargaining agreement, it being understood that the terms of the applicable collective bargaining agreement covering each such Company Employee shall apply.

(d) The Company shall not, during the period prior to the Effective Time, make any written or other communication to its employees relating to employee, compensation or benefits without the prior approval of Parent, which approval shall not be unreasonably withheld.

Section 6.9 Severance Agreements. In accordance with Paragraph 7 of the Amendment to Employment Agreement and Officer Severance Agreements, dated as of May 19, 1988, between the Company and Donald D. Dreher and Joseph G. Hill (the "Company Severance Agreements"), as of the Effective Time, the Surviving Corporation hereby expressly assumes and agrees, to perform the Company Severance Agreements in the same manner and to the same extent that the Company would be required to perform them if the Merger had not taken place.

ARTICLE VII

CONDITIONS

Section 7.1 Conditions to Each Party's Obligations to Effect the Merger. The respective obligations of each party to effect the Merger shall be subject to the satisfaction on or prior to the Closing Date of each of the following conditions, any and all of which may be waived in whole or in part by Parent, the Purchaser and the Company, as the case may be, to the extent permitted by applicable law:

(a) The Merger and this Agreement shall have been approved and adopted by the requisite vote of the holders of the Shares, to the extent required pursuant to the requirements of the Certificate of Incorporation, the Bylaws of the Company, and the DGCL;

(b) No statute, rule or regulation shall have been enacted or promulgated by any Governmental Entity which prohibits the consummation of the Merger, and there shall be no order or injunction of a court of competent jurisdiction in effect prohibiting consummation of the Merger; and

(c) The Purchaser shall have purchased, or caused to be purchased, any Shares pursuant to the Offer.

ARTICLE VIII

TERMINATION

Section 8.1 Termination. This Agreement may be terminated and the Transactions may be abandoned at any time before the Effective Time, whether before or after stockholder approval thereof:

(a) By mutual written consent of Parent and the Company;

(b) By either Parent or the Company (i) if, prior to the purchase of any Shares in the Offer, a court of competent jurisdiction or other Governmental Entity shall have issued an order, decree or ruling or taken any other action, in each case permanently restraining, enjoining or otherwise prohibiting any of the Transactions (including each of the Offer, the Merger and the Tender and Voting Agreements), (ii) if the Offer shall not have been commenced within ten (10) business days following the date of this Agreement, (iii) if the Offer shall have expired without any Shares being purchased therein or (iv) if the Offer has not been consummated by November 30, 2003 (the "Outside Date"); provided, however, that the right to terminate this Agreement pursuant to clause (ii), (iii) or (iv) of this Section 8.1(b) shall not be available to any party whose failure to fulfill any obligation under this Agreement has been the cause of, or resulted in, the failure of the Offer to be commenced within ten (10) business days following the date of this Agreement, the failure of the Shares to be purchased in the Offer or the failure of the Offer to be consummated by the Outside Date, as applicable;

(c) By Parent, at any time prior to the purchase of the Shares pursuant to the Offer, if (i) the Company Board of Directors or any committee thereof shall have withdrawn, modified, or changed its recommendation in respect of this Agreement, the Offer or the Merger in a manner adverse to the Transactions, to Parent or to the Purchaser, (ii) the Company Board of Directors or any committee thereof shall have recommended or approved, or publicly announced a neutral position with respect to, any Acquisition Proposal, (iii) the Company Board of Directors or any committee thereof shall have resolved to do any of the foregoing, (iv) the Company Board of Directors or any committee thereof shall have failed to

affirm its recommendation in respect of the Transactions within seven days of a request to do so by Parent, (v) the Company shall have violated or breached any of its obligations under Section 5.2 or (vi) the Company shall have breached any representation, warranty, covenant or other agreement contained in this Agreement which (A) would give rise to the failure of a condition set forth in paragraph (f) or (g) of Annex I hereto and (B) cannot be or has not been cured, in all material respects, within 30 days after the giving of written notice to the Company; or

(d) By the Company, at any time prior to the purchase of the Shares in the Offer, (i) pursuant to and in compliance with Section 5.2(d) or (ii) if Parent or the Purchaser shall have breached in any material respect any of the representations, warranties, covenants or agreements contained in this Agreement and such breach cannot be or has not been cured, in all material respects, within 30 days after the giving of written notice to Parent.

Section 8.2 Notice of Termination; Effect of Termination. (a) In the event of the termination of this Agreement as provided in Section 8.1, written notice thereof shall forthwith be given to the other party or parties specifying the provision hereof pursuant to which such termination is made, and this Agreement shall forthwith become null and void (except for Sections 6.2, 8.2, 9.3, 9.4, 9.5, 9.6, 9.7, 9.8 and 9.12 which shall survive such termination) and there shall be no liability on the part of Parent, the Purchaser or the Company, except (i) as set forth in Sections 6.2 and 8.2, and (ii) nothing herein shall relieve any party from liability for any intentional breach of a representation or warranty contained in this Agreement or for any breach of any covenant or agreement contained in this Agreement.

(b) If (i) Parent shall have terminated this Agreement pursuant to Sections 8.1(c)(i)-(v); (ii) the Company shall have terminated this Agreement pursuant to Section 8.1(d)(i); or (iii) (A) either (1) either Parent or the Company shall have terminated this Agreement pursuant to Sections 8.1(b)(ii)-(iv) or (2) Parent shall have terminated this Agreement pursuant to Section 8.1(c)(vi) due to the failure of the condition set forth in clause (g) on Annex I hereto, and (B) prior to the date of such termination, an Acquisition Proposal shall have been publicly announced or communicated to the Company Board of Directors and not withdrawn prior to the date of such termination and within twelve (12) months of any such termination, the Company enters into a definitive agreement with any third party with respect to an Acquisition Proposal or any such a transaction is consummated, then the Company shall pay to Parent a termination fee of $ 1,000,000 (the "Termination Fee") (x) concurrently with such termination in the case of a

termination pursuant to Section 8.1(d)(i), (y) within two business days after such termination pursuant to Section 8.1(c)(i)-(v), and (z) upon the earlier to occur of the execution of a definitive agreement and the consummation of a transaction in accordance with a termination described in Section 8.2(b)(iii). The Termination Fee shall be paid by wire transfer of immediately available funds to such account as Parent may designate in writing to the Company

ARTICLE IX

MISCELLANEOUS

Section 9.1 Amendment and Modification. Subject to applicable law and as otherwise provided herein, this Agreement may be amended, modified and supplemented in any and all respects, whether before or after any vote of the stockholders of the Company contemplated hereby, by written agreement of the parties hereto, by action taken by their respective Boards of Directors, but, after the purchase of Shares pursuant to the Offer, any amendment shall be in compliance with the terms of Section 1.3(b), and after the approval of this Agreement by the stockholders, no amendment shall be made which by law requires further approval by such stockholders without obtaining such further approval. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

Section 9.2 Non-survival of Representations and Warranties. None of the representations and warranties in this Agreement or in any schedule, instrument or other document delivered pursuant to this Agreement shall survive the acceptance for payment, and payment for, the Shares by the Purchaser pursuant to the Offer.

Section 9.3 Expenses. All fees, costs and expenses incurred in connection with this Agreement and the Transactions shall be paid by the party incurring such fees, costs and expenses.

Section 9.4 Notices. All notices and other communications hereunder shall be in writing and shall be deemed duly given if delivered personally, sent by facsimile (which is confirmed) or sent by a nationally recognized overnight courier service, such as Federal Express (providing proof of delivery), to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(a) if to Parent or the Purchaser, to:

Flexsteel Industries, Inc.
P.O. Box 877
Dubuque, Iowa 52004-0877
Facsimile: (563) 556-8345
Attention: K. Bruce Lauritsen
Chief Executive Officer

with a copy to:

Skadden, Arps, Slate, Meagher & Flom (Illinois)
333 West Wacker Drive
Chicago, Illinois 60606
Facsimile: (312) 407-0411
Attention: Charles W. Mulaney, Jr., Esq.

and

O'Connor & Thomas, P.C.
Dubuque Building
700 Locust Street, Suite 200
Dubuque, Iowa 52004
Facsimile: (563) 556-1867
Attention: John C. O'Connor, Esq.

and

(b) if to the Company, to:

DMI Furniture, Inc.
One Oxmoor Place
101 Bullitt Lane, Suite 205
Facsimile: (502) 429-6285
Attention: Donald D. Dreher
Chief Executive Officer

with a copy to:

Frost Brown Todd LLC
400 West Market Street, 32nd Floor
Louisville, Kentucky 40202
Facsimile: (502) 581-1087
Attention: Alan K. MacDonald, Esq.

All such notices, requests and other communications will (i) if delivered personally to the address as provided in this Section, be deemed given upon delivery, (ii) if delivered by facsimile transmission to the facsimile number as provided in this Section 9.4 be deemed given upon electronic confirmation of receipt, and (iii) if delivered by overnight courier service to the address as provided in this Section 9.4 be deemed given upon delivery as indicated in the records of such courier (in each case regardless of whether such notice, request or other communication is received by any other Person to whom a copy of such notice, request or other communication is to be delivered pursuant to this Section 9.4). Any party from time to time may change its address, facsimile number or other information for the purpose of notices to that party by giving written notice specifying such change to the other party hereto.

Section 9.5 Interpretation. When a reference is made in this Agreement to Sections, such reference shall be to a Section of this Agreement unless otherwise indicated. Whenever the words “include”, “includes” or “including” are used in this Agreement they shall be deemed to be followed by the words “without limitation.” As used in this Agreement, the term “affiliates” shall have the meaning set forth in Rule 12b-2 of the Exchange Act. The words describing the singular number shall include the plural and vice versa. The parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Agreement. Headings of the Articles and Sections of this Agreement, the Table of Contents and the Index of Defined Terms are for the convenience of the parties only and shall be given no substantive or interpretive effect whatsoever.

Section 9.6 Jurisdiction. Each of Parent, the Purchaser and the Company hereby expressly and irrevocably submits to the exclusive personal jurisdiction of the United States District Court for the District of Delaware and to the jurisdiction of any other competent court of the State of Delaware (collectively, the

"Delaware Courts"), preserving, however, all rights of removal to such federal court under 28 U.S.C. Section 1441, in connection with all disputes arising out of or in connection with this Agreement or the transactions contemplated hereby and agrees not to commence any litigation relating thereto except in such courts. Each such party hereby waives the right to any other jurisdiction or venue for any litigation arising out of or in connection with this Agreement or the transactions contemplated hereby to which any of them may be entitled by reason of its present or future domicile. Notwithstanding the foregoing, each such party agrees that each of the other parties shall have the right to bring any action or proceeding for enforcement of a judgment entered by the Delaware Courts in any other court or jurisdiction.

Section 9.7 Service of Process. Each of Parent, the Purchaser and the Company irrevocably consents to the service of process outside the territorial jurisdiction of the courts referred to in Section 9.6 hereof in any such action or proceeding by mailing copies thereof by registered United States mail, postage prepaid, return receipt requested, to its address as specified in or pursuant to Section 9.4 hereof. However, the foregoing shall not limit the right of a party to effect service of process on the other party by any other legally available method.

Section 9.8 Specific Performance. Each of Parent, the Purchaser and the Company acknowledges and agrees that in the event of any breach of this Agreement, each non-breaching party would be irreparably and immediately harmed and could not be made whole by monetary damages. It is accordingly agreed that the parties hereto (a) will waive, in any action for specific performance, the defense of adequacy of a remedy at law and (b) shall be entitled, in addition to any other remedy to which they may be entitled at law or in equity, to compel specific performance of this Agreement.

Section 9.9 Counterparts. This Agreement may be executed manually or by facsimile by the parties hereto, in any number of counterparts, each of which shall be considered one and the same agreement and shall become effective when a counterpart hereof shall have been signed by each of the parties and delivered to the other parties.

Section 9.10 Entire Agreement; No Third-Party Beneficiaries. This Agreement (including all schedules hereto), the Confidentiality Agreements and the Tender and Voting Agreements constitute the entire agreement among the parties with respect to the subject matter hereof and thereof and supersede all other prior agreements and understandings, both written and oral, among the parties or any of them with respect to the subject matter hereof and thereof (provided that the

provisions of this Agreement shall supersede any conflicting provisions of the Confidentiality Agreements). Except as provided in Section 6.4, nothing in this Agreement, express or implied, is intended to confer upon any Person other than the parties hereto any rights or remedies hereunder.

Section 9.11 Severability. Any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction. If any provision of this Agreement is so broad as to be unenforceable, the provision shall be interpreted to be only so broad as is enforceable.

Section 9.12 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware without giving effect to the principles of conflicts of law thereof.

Section 9.13 Assignment. This Agreement shall not be assigned by any of the parties hereto (whether by operation of law or otherwise) without the prior written consent of the other parties, except that the Purchaser may assign any or all of its rights, interests and obligations hereunder to Parent, one or more direct or indirect wholly-owned Subsidiaries of Parent, or a combination thereof. Subject to the foregoing, this Agreement will be binding upon, inure to the benefit of and be enforceable by the parties and permitted assigns.

Section 9.14 No Waiver. No waiver by any party to this Agreement at any time of a breach by any other party of any provision of this Agreement to be performed by such other party shall be deemed a waiver of any similar or dissimilar provisions of this Agreement at the same or any prior or subsequent time.

IN WITNESS WHEREOF, Parent, the Purchaser and the Company have caused this Agreement to be signed by their respective officers thereunto duly authorized as of the date first written above.

FLEXSTEEL INDUSTRIES, INC.

By /s/ K. Bruce Lauritsen

Name: K. Bruce Lauritsen
Title: President / CEO

CHURCHILL ACQUISITION CORP.

By /s/ K. Bruce Lauritsen

Name: K. Bruce Lauritsen
Title: President

DMI FURNITURE, INC.

By /s/ Donald D. Dreher

Name: Donald D. Dreher
Title: President & CEO

Notwithstanding any other provisions of the Offer, and in addition to (and not in limitation of) the Purchaser's right to extend and amend the Offer at any time in its sole discretion (subject to the provisions of the Merger Agreement), the Purchaser shall not be required to accept for payment or, subject to any applicable rules and regulations of the SEC, including Rule 14e-1(c) under the Exchange Act (relating to the Purchaser's obligation to pay for or return tendered Shares after termination or withdrawal of the Offer), pay for, and may delay the acceptance for payment of or, subject to the restriction referred to above, the payment for, any validly tendered Shares if by the expiration of the Offer (as it may be extended in accordance with the requirements of Section 1.1), (i) the Minimum Condition shall not be satisfied or (ii) at any time on or after the date of the Merger Agreement and prior to the acceptance for payment of Shares pursuant to the Offer, any of the following events shall occur and be continuing:

(a) there shall be pending any suit, action or proceeding by any Governmental Entity against the Purchaser, Parent, the Company or any Company Subsidiary (i) seeking to restrain or prohibit Parent's or the Purchaser's ownership or operation (or that of any of their respective Subsidiaries or affiliates) of all or a material portion of their or the Company's and the Company Subsidiaries' businesses or assets, or to compel Parent or the Purchaser or their respective Subsidiaries and affiliates to dispose of or hold separate any material portion of the business or assets of the Company or Parent and their respective Subsidiaries, (ii) challenging the acquisition by Parent or the Purchaser of any Shares under the Offer, seeking to restrain or prohibit the making or consummation of the Offer or the Merger or the performance of any of the other Transactions, or seeking to obtain from the Company, Parent or the Purchaser any material damages, (iii) seeking to impose material limitations on the ability of the Purchaser, or render the Purchaser unable, to accept for payment, pay for or purchase some or all of the Shares pursuant to the Offer and the Merger, (iv) seeking to impose limitations on the ability of the Purchaser or Parent to exercise full rights of ownership of the Shares, including, without limitation, the right to vote the Shares purchased by it on all matters properly presented to the Company's stockholders; or (v) which otherwise would reasonably be expected to have a Company Material Adverse Effect;

(b) there shall be any statute, rule, regulation, judgment, order or injunction enacted, entered, enforced, promulgated or deemed applicable by any Governmental Entity, to the Offer or the Merger, or any other action shall be taken by

any Governmental Entity that is reasonably likely to result, directly or indirectly, in any of the consequences referred to in clauses (i) through (v) of paragraph (a) above;

(c) there shall have occurred (i) a declaration of a banking moratorium or any suspension of payments in respect of banks in the United States (whether or not mandatory), (ii) any limitation (whether or not mandatory) by any Governmental Entity on the extension of credit generally by banks or other financial institutions or (iii) a change in general financial, bank or capital market conditions which materially and adversely affects the ability of financial institutions in the United States to extend credit or syndicate loans for credit worthy borrowers;

(d) since the date of the Merger Agreement, there shall have occurred any events or changes which have had or which would reasonably be expected to have or constitute, individually or in the aggregate, a Company Material Adverse Change or a Company Material Adverse Effect;

(e) the Company Board of Directors or any committee thereof shall have (i) withdrawn, or modified or changed its recommendation in respect of the Merger Agreement, the Offer or the Merger in a manner adverse to the Transactions, to Parent or to the Purchaser (including by amendment of the Schedule 14D-9), (ii) recommended or approved, or publicly announced a neutral position with respect to, any Acquisition Proposal, (iii) resolved to do any of the foregoing or (iv) failed to reaffirm its recommendation in respect of the Transactions within seven days of a request to do so by Parent;

(f) the representations or warranties of the Company contained in the Merger Agreement shall not be true and correct (without giving effect to any qualifications as to "materiality" or Company Material Adverse Effect set forth therein), in each case as if such representation or warranty was made as of such time on or after the date of the Merger Agreement (except that any representations or warranties that speak as of a specified date need only be true and correct as of such specified date), except where the failure of such representations and warranties to be so true and correct (without giving any effect to any qualifications as to "materiality" or Company Material Adverse Effect set forth therein) would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect;

(g) the Company shall have materially breached or failed, in any material respect, to perform or to comply with any agreement or covenant to be performed or complied with by it under the Merger Agreement; or

(h) the Merger Agreement shall have been terminated in accordance with its terms.

The foregoing conditions are for the benefit of Parent and the Purchaser, may be asserted by Parent or the Purchaser regardless of the circumstances giving rise to such condition, and may be waived by Parent or the Purchaser in whole or in part at any time and from time to time in the discretion of Parent or the Purchaser, subject in each case to the terms of the Merger Agreement. The failure by Parent or the Purchaser at any time to exercise any of the foregoing rights shall not be deemed a waiver of any such right and, each such right shall be deemed an ongoing right which may be asserted at any time and from time to time.

The capitalized terms used in this Annex I shall have the meanings set forth in the agreement to which it is annexed, except that the term "Merger Agreement" shall be deemed to refer to the agreement to which this Annex I is annexed.

TENDER AND VOTING AGREEMENT

TENDER AND VOTING AGREEMENT (this "Agreement"), dated as of August 12, 2003, by and among Flexsteel Industries, Inc., a Minnesota corporation ("Parent"), Churchill Acquisition Corp., a Delaware corporation and direct wholly-owned subsidiary of Parent ("Purchaser"), and _____, a stockholder ("Stockholder"), of DMI Furniture, Inc., a Delaware corporation (the "Company").

WHEREAS, Stockholder is, as of the date hereof, the record and beneficial owner of the number of shares of common stock, par value $0.10 per share (the "Common Stock"), of the Company, set forth opposite such Stockholder's name on Schedule I hereto;

WHEREAS, Parent, Purchaser and the Company propose to enter into an Agreement and Plan of Merger, dated as of the date hereof (the "Merger Agreement"), which provides for Purchaser to commence a tender offer (the "Offer") for all of the issued and outstanding shares of the Common Stock and the merger of Purchaser with and into the Company, with the Company surviving as a wholly-owned subsidiary of Parent (the "Merger"); and

WHEREAS, as a condition to the willingness of Parent and Purchaser to enter into the Merger Agreement and as an inducement and in consideration therefor, Stockholder has agreed to enter into this Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements set forth herein and in the Merger Agreement, and intending to be legally bound hereby, the parties hereto agree as follows:

SECTION 1. Representations and Warranties of the Stockholders.

Stockholder hereby represents and warrants to Parent and Purchaser as follows:

(a) Stockholder is the record and beneficial owner of the shares of Common Stock (together with any shares of Common Stock which such Stockholder may acquire at any time on or after the date hereof during the term of this Agreement, the "Shares") set forth opposite Stockholder's name on Schedule I to this Agreement. Schedule I lists separately all options, warrants or other rights to purchase Common Stock issued to Stockholder ("Options").

(b) Stockholder has the legal capacity to execute and deliver this Agreement and to consummate the transactions contemplated hereby.

(c) This Agreement has been validly executed and delivered by Stockholder and constitutes the legal, valid and binding obligation of Stockholder, enforceable against Stockholder in accordance with its terms, except (i) as limited by

applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, and (ii) that the availability of the remedy of specific performance or injunctive or other forms of equitable relief may be subject to equitable defenses and would be subject to the discretion of the court before which any proceeding therefor may be brought.

(d) Neither the execution and delivery of this Agreement nor the consummation by Stockholder of the transactions contemplated hereby will result in a violation of, or a default under, or conflict with, any contract, trust, commitment, agreement, understanding, arrangement or restriction of any kind to which Stockholder is a party or by which Stockholder or Stockholder's assets are bound. The consummation by Stockholder of the transactions contemplated hereby will not violate, or require any consent, approval, or notice under, any provision of any judgment, order, decree, statute, law, rule or regulation applicable to Stockholder.

(e) The Shares and the certificates representing the Shares owned by Stockholder are now, and at all times during the term hereof will be, held by Stockholder, or by a nominee or custodian for the benefit of Stockholder, free and clear of all liens, claims, security interests, proxies, voting trusts or agreements, options, rights, understandings or arrangements or any other encumbrances whatsoever on title, transfer, or exercise of any rights of a stockholder in respect of such Shares, except for any of the foregoing arising under this Agreement.

SECTION 2. Representations and Warranties of Parent and Purchaser.

Each of Parent and Purchaser hereby, jointly and severally, represents and warrants to Stockholder as follows:

(a) Each of Parent and Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of Minnesota and the State of Delaware, respectively, and each of Parent and Purchaser has all requisite corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby, and has taken all necessary corporate action to authorize the execution, delivery and performance of this Agreement.

(b) This Agreement has been duly authorized, executed and delivered by each of Parent and Purchaser, and constitutes the legal, valid and binding obligation of each of Parent and Purchaser, enforceable against each of them in accordance with its terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally and (ii) that the availability of the remedy of specific performance or injunctive or other forms of equitable relief may be subject to equitable defenses and would be subject to the discretion of the court before which any proceeding therefor may be brought.

SECTION 3. Tender of the Shares. Each Stockholder hereby agrees that unless this Agreement is terminated pursuant to Section 7 hereof, (a) Stockholder shall

validly tender or cause to be validly tendered its Shares to Purchaser pursuant to the Offer as promptly as practicable, and in any event no later than the tenth business day following the commencement of the Offer pursuant to Section 1.1 of the Merger Agreement (except that any Shares held in the name of a brokerage firm or similar agent or intermediary shall be tendered as soon as reasonably practicable, but in any event not later than 5 business days prior to the initial scheduled expiration date of the Offer, and (b) Stockholder shall not withdraw or cause to be withdrawn any of Stockholder's Shares so tendered unless the Offer is terminated or has expired without Purchaser purchasing all shares of Common Stock validly tendered in the Offer.

SECTION 4. Transfer of the Shares.

Prior to the termination of this Agreement, except as otherwise provided herein, Stockholder shall not: (a) transfer, assign, sell, gift-over, pledge or otherwise dispose of, or consent to any of the foregoing ("Transfer"), any or all of the Shares or any right or interest therein; (b) enter into any contract, option or other agreement, arrangement or understanding with respect to any Transfer; (c) grant any proxy, power-of-attorney or other authorization or consent with respect to any of the Shares; (d) deposit any of the Shares into a voting trust, or enter into a voting agreement or arrangement with respect to any of the Shares; (e) exercise, or give notice of an intent to exercise, any Options unless the Shares underlying such Options become subject to this Agreement upon such Option exercise; or (f) take any other action, other than in Stockholder's capacity as an officer or director of the Company, that would in any way restrict, limit or interfere with the performance of Stockholder's obligations hereunder or the transactions contemplated hereby.

SECTION 5. Grant of Irrevocable Proxy; Appointment of Proxy.

(a) Stockholder hereby irrevocably grants to, and appoints, Parent and any designee thereof, Stockholder's proxy and attorney-in-fact (with full power of substitution), for and in the name, place and stead of Stockholder, to vote the Shares, or to grant a consent or approval in respect of the Shares, in connection with any meeting of the stockholders of the Company or any action by written consent in lieu of a meeting of stockholders of the Company (i) in favor of the Merger or any other transaction pursuant to which Parent or Purchaser proposes to acquire the Company, whether by tender offer, merger, or otherwise, in which stockholders of the Company would receive consideration per share of Common Stock equal to or greater than the consideration to be received by such stockholders in the Offer and the Merger, and/or (ii) against any action or agreement which would impede, interfere with or prevent the Merger, including, but not limited to, any other extraordinary corporate transaction, including a merger, acquisition, sale, consolidation, reorganization or liquidation involving the Company and a third party, or any other proposal of a third party to acquire the Company.

(b) Stockholder represents that any proxies heretofore given in respect of the Shares, if any, are revocable, and hereby revokes any such proxies.

(c) Stockholder hereby affirms that the irrevocable proxy set forth in this Section 5 is given in connection with the execution of the Merger Agreement, and that such irrevocable proxy is given to secure the performance of the duties of Stockholder under this Agreement. Stockholder hereby further affirms that the irrevocable proxy is coupled with an interest and, except as set forth in Section 7 hereof, is intended to be irrevocable in accordance with the provisions of Section 212(e) of the DGCL. If for any reason the proxy granted herein is not irrevocable, then Stockholder agrees to vote Stockholder's Shares as instructed by Parent in writing.

SECTION 6. Acquisition Proposals; Non-Solicitation. Stockholder shall not, directly or indirectly, (i) solicit, initiate, endorse, accept or encourage the submission of any Acquisition Proposal, or (ii) participate in any discussions or negotiations regarding, or furnish to any Person any information with respect to, or otherwise cooperate in any way with respect to, or participate in, assist, facilitate, endorse or encourage any proposal that constitutes, or may reasonably be expected to lead to, an Acquisition Proposal; provided, however, that nothing herein shall prevent Stockholder from acting in his or her capacity as an officer or director of the Company, or taking any action in such capacity (including at the direction of the Company Board of Directors), but only in either such case as and to the extent permitted by Section 5.2(b) of the Merger Agreement. Stockholder shall immediately cease participating in any discussions or negotiations with any parties that may be ongoing with respect to an Acquisition Proposal.

SECTION 7. Termination. This Agreement shall terminate, and neither Parent nor Stockholder shall have any rights or obligations hereunder and this Agreement shall become null and void and have no effect upon the earlier to occur of (i) the Effective Time and (ii) the date of termination of the Merger Agreement in accordance with its terms; provided, however, that termination of this Agreement shall not prevent any party hereunder from seeking any remedies (at law or in equity) against any other party hereto for such party's breach of any of the terms of this Agreement. Notwithstanding the foregoing, Sections 8(a), 8(e), 8(f), 8(j), 8(k) and 8(l) of this Agreement shall survive the termination of this Agreement. The representations and warranties made herein shall not survive the termination of this Agreement.

SECTION 8. Miscellaneous.

(a) Notices. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally, telecopied (which is confirmed) or sent by a nationally recognized overnight courier service, such as Federal Express (providing proof of delivery), to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

If to a Stockholder, at the address set forth below such Stockholder's name on Schedule I hereto:

with a copy to:

Frost Brown Todd LLC
400 West Market Street
Louisville, Kentucky 40202-3363
Facsimile: (502) 581-1087
Attention: Alan K. MacDonald

and

If to Parent or Purchaser, to:

Flexsteel Industries, Inc.
P.O. Box 877
Dubuque, Iowa 52004-0877
Facsimile: (563) 556-8345
Attention: K. Bruce Lauritsen
Chief Executive Officer

with a copy to:

Skadden, Arps, Slate, Meagher & Flom (Illinois)
333 West Wacker Drive
Chicago, Illinois 60606
Facsimile: (312) 407-0411
Attention: Charles W. Mulaney, Jr., Esq.

and

O'Connor & Thomas, P.C.
Dubuque Building
700 Locust Street, Suite 200
Dubuque, Iowa 52004
Facsimile: (563) 556-1867
Attention: John C. O'Connor, Esq.

(b) Publication. Stockholder hereby permits Parent and Purchaser to publish and disclose in the Offer Documents (including all documents and schedules filed with the SEC) Stockholder's identity and ownership of shares of Common Stock and the nature of Stockholder's commitments, arrangements and understandings pursuant to this Agreement.

(c) Further Actions. Each of the parties hereto agrees that it will use its reasonable best efforts to do all things necessary to effectuate this Agreement.

(d) Amendment, Waivers, etc. This Agreement may not be amended, changed, supplemented, waived or otherwise modified, except upon the execution and delivery of a written agreement executed by each of the parties hereto. The failure of any party hereto to exercise any right, power or remedy provided under this

Agreement or otherwise available in respect hereof at law or in equity, or to insist upon compliance by any other party hereto with its obligations hereunder, and any custom or practice of the parties at variance with the terms hereof shall not constitute a waiver by such party of its right to exercise any such or other right, power or remedy or to demand such compliance.

(e) Specific Performance. Each of the parties hereto acknowledges and agrees that in the event of any breach of this Agreement, each non-breaching party would be irreparably and immediately harmed and could not be made whole by monetary damages. It is accordingly agreed that the parties hereto (a) will waive, in any action for specific performance, the defense of adequacy of a remedy at law and (b) shall be entitled, in addition to any other remedy to which they may be entitled at law or in equity, to compel specific performance of this Agreement.

(f) Capitalized Terms. For purposes of this Agreement, capitalized terms used and not defined herein shall have the respective meanings ascribed to them in the Merger Agreement.

(g) Entire Agreement. This Agreement (together with the Merger Agreement, to the extent referred to herein) constitutes the entire agreement of the parties and supersedes all prior agreements and undertakings, both written and oral, between the parties, or any of them, with respect to the subject matter hereof.

(h) Assignment. This Agreement shall not be assigned by any of the parties hereto (whether by operation of law or otherwise) without the prior written consent of the other parties, except that Purchaser may assign any or all of its rights, interests and obligations hereunder to Parent, one or more direct or indirect wholly-owned Subsidiaries of Parent, or a combination thereof. Subject to the foregoing, this Agreement will be binding upon, inure to the benefit of and be enforceable by the parties and permitted assigns.

(i) Parties in Interest. This Agreement shall be binding upon and inure solely to the benefit of each party hereto and their respective successors and permitted assigns, and nothing in this Agreement, express or implied, is intended to or shall confer upon any other Person any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

(j) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware without giving effect to the principles of conflicts of law thereof.

(k) Consent to Jurisdiction. Each of Parent, Purchaser and Stockholder hereby expressly and irrevocably submits to the exclusive personal jurisdiction of the Delaware Courts, in connection with all disputes arising out of or in connection with this Agreement or the transactions contemplated hereby and agrees not to commence any litigation relating thereto except in such courts. Each such party hereby waives the right to any other jurisdiction or venue for any litigation arising out of

or in connection with this Agreement or the transactions contemplated hereby to which any of them may be entitled by reason of its present or future domicile.

(l) Service of Process. Each of Parent, Purchaser and Stockholder irrevocably consents to the service of process outside the territorial jurisdiction of the courts referred to in Section 8(k) hereof in any such action or proceeding by mailing copies thereof by registered United States mail, postage prepaid, return receipt requested, to its address as specified in or pursuant to Section 8(a) hereof. However, the foregoing shall not limit the right of a party to effect service of process on the other party by any other legally available method.

(m) Counterparts. This Agreement may be executed manually or by facsimile by the parties hereto, in any number of counterparts, each of which shall be considered one and the same agreement and shall become effective when a counterpart hereof shall have been signed by each of the parties and delivered to the other parties.

******

IN WITNESS WHEREOF, Parent, Purchaser and Stockholder have caused this Agreement to be duly executed and delivered as of the date first written above.

FLEXSTEEL INDUSTRIES, INC.

By: _____

Name:
Title:

CHURCHILL ACQUISITION CORP.

By: _____

Name:
Title:

_____

Name:

SCHEDULE I

Name and Address	Shares	Options	Total Shares + Options

December 5, 2002

Mr. K. Bruce Lauritsen
President & CEO
Flexsteel Industries, Inc.
P.O. Box 877
Dubuque, IA 52004

CONFIDENTIALITY AGREEMENT

Dear Mr. Lauritsen:

You have expressed an interest in exploring a possible transaction involving DMI Furniture, Inc. (the "Company"). The Company is prepared to make available to you and your officers, directors, employees, representatives and agents, all of whom will become bound by the terms hereof, certain written and oral information (together the "Information") concerning the business and operations of the Company for the sole purpose of determining your possible interest in pursuing a transaction with the Company.

In consideration of the Company's agreement to provide you with the Information, you (including your officers, directors, employees, representatives and agents) hereby agree to abide by each term and condition set forth herein. You further acknowledge that each such term and condition is necessary to preserve the confidentiality of the Information and that a breach of any of the terms and conditions hereof might result in irreparable damage to the Company in an amount now impossible to calculate. In acknowledgement of these facts and in consideration of the delivery of the Information, it is hereby agreed as follows:

1. Subject to the provisions of Paragraph 2 hereof, you agree that the Information will be kept confidential by you and to make all necessary and appropriate efforts to safeguard the Information from disclosure. You agree that you will not disclose or distribute the Information or any portion thereof to anyone other than to such of your officers, directors, employees, representatives and agents as need to know such Information for the purpose of evaluating any possible transaction between the Company and you (it being understood that such officers, directors, employees, representatives and agents shall be directed by you to treat such Information confidentially). You also agree not to use the Information for any competitive purpose or for any purpose other than as stated in the first paragraph of this Agreement, and you agree not to make such material available to any other person or group for any other purpose.
2. You further agree that, without the Company's prior written consent, you will not disclose to any person the fact that you have obtained confidential information from the Company, or that the discussions or negotiations are taking place concerning a possible transaction between you and the

Company or the status thereof, unless, in the opinion of your counsel, such disclosure is required by the United States securities laws applicable to you (in which case you shall advise and consult prior to such disclosure with the Company and their counsel as to any disclosure you propose to make concerning the reasons for, and nature of, your proposed disclosure).

3. For a period of two years after the date of this Agreement, you and your Representatives shall not, directly or indirectly, and you shall cause any person or entity controlled by you not to, without the prior written consent of the Board of Directors of the Company, (i) in any manner acquire, agree to acquire or make any proposal to acquire, directly or indirectly, greater than 5% of any class of voting securities or any property of the Company or any of its affiliates, (ii) propose to enter into, directly or indirectly, any merger, consolidation, recapitalization, business combination or other similar transaction involving the Company or any of its affiliates, (iii) make, or in any way participate in any “solicitation” of “proxies” (as such terms are used in the proxy rules of the Securities and Exchange Commission) to vote, or seek to advise or influence any person with respect to the voting of any voting securities of the Company or any of its affiliates, (iv) form, join or in any way participate in a “group” (within the meaning of Section 13(d)(3) of the 1934 Act with respect to any voting securities of the Company or any of its affiliates, (v) otherwise act, alone or in concert with others, to seek control or influence the management, Board of Directors or policies of the Company, (vi) disclose any intention, plan or arrangement inconsistent with the foregoing, or (vii) advise, assist or encourage any other person in connection with any of the foregoing.

4. You agree that, at the conclusion of your review of the Company’s business and operations, or such date as the Company requests, all copies of the Information in any form whatsoever (including any reports, memoranda or transmittal letters prepared by you or at your direction concerning the Company) will be returned by you and your authorized representatives to the Company or be certified in writing by you to have been destroyed.

5. This agreement shall not apply to information which (i) becomes generally available to the public, provided this occurs by means other than the breach of this Agreement by you or your representatives or (v) becomes available to you on a non-confidential basis from a source other than the Company or their representatives, provided that such source is not a party to a confidentiality agreement concerning that information with you, your representatives, the Company, their representatives or any other person or entity.

6. Without prejudice to the rights and remedies otherwise available to the Company, the Company shall be entitled to equitable relief by way of

injunction if you or any of your representatives breach or threaten to breach any of the provisions of this Agreement. You agree to waive, and to cause your Representatives to waive, any requirement for the securing or posting of any bond in connection with such remedy.

7. This letter agreement shall be governed and construed in accordance with the laws of the Commonwealth of Kentucky, without giving effect to the principles of conflict of laws thereof.

If the foregoing is acceptable to you, kindly sign this Agreement whereupon it will become binding in accordance with its terms.

Very truly yours,

/s/ W. Howard Armistead

W. Howard Armistead
A Representative of DM Furniture, Inc.

AGREED AND ACCEPTED:

Flexsteel Ind.

(Company)

/s/ K. Bruce Lauritsen
President/CEO

(Name and Title)

December 5, 2002

(Date)

MUTUAL CONFIDENTIALITY AGREEMENT

THIS MUTUAL CONFIDENTIALITY AGREEMENT (the "Agreement") is made and entered into as of the 14th day of May 2003, by and between Flexsteel Industries, Inc., and DMI Furniture, Inc.

RECITALS:

A. The parties have had, or are interested in entering into, discussions regarding a potential business relationship.

B. In the course of such discussions and/or during such relationship, each party (a "Receiving Party") has had or will have access to Confidential Information (as hereinafter defined) belonging to the other party hereto (a "Disclosing Party") with the understanding and agreement that such Confidential Information will be kept strictly confidential, and the parties now wish to confirm their understanding and agreement in writing.

THEREFORE, in consideration of the premises and covenants set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, it is hereby agreed as follows:

1. As used in this Agreement, the term "Confidential Information" means all information, whether oral, written or otherwise, belonging to or concerning a Disclosing Party, its affiliates, or its clients or customers, including, without limitation, strategic, marketing and business plans, models, and initiatives, computer programs, research and development projects, financial information, identities of, and other information with respect to the Disclosing Party's suppliers, clients and customers, trade secrets, and other nonpublic aspects of the Disclosing Party's business, which such Disclosing Party or its representatives provided or provide at any time to a Receiving Party or any of its representatives and is identified as "Confidential" by the Disclosing Party in writing to the Receiving Party at the time of disclosure. It includes, without limitation, analyses, compilations, studies and other documents, in whatever form, which are based upon, incorporate or otherwise reflect such Confidential Information that has been so identified. The term Confidential Information does not include information that would otherwise be Confidential Information if (a) such information has become or hereafter becomes generally available to the public other than as a result of a disclosure by the Receiving Party or any of its representatives, (b) such information is furnished to the Receiving Party on a nonconfidential basis from a source other than the Disclosing Party, or (c) such information is within the Receiving Party's possession prior to its being furnished to such Receiving Party by the Disclosing Party.

2. All Confidential Information shall be held and treated by the Receiving Party and its representatives in confidence and will not, except as hereinafter expressly permitted, be disclosed or used by the Receiving Party or its representatives other than in connection with the Receiving Party's consideration of a potential business relationship with the Disclosing Party and as necessary in the course of the parties' business relationship. The Receiving Party shall disclose Confidential Information only to its representatives (a) who need to know the Confidential Information in connection with the relationship between the parties, (b) who are informed of the confidential nature of the information the Receiving Party discloses to them, and (c) who are under an obligation of confidentiality to the Receiving Party.

3. Both parties agree, in addition to and not in limitation of, any of the rights, remedies or damages otherwise available, at law or in equity, each shall be entitled to injunctive relief in order to prevent or restrain any breach of this Confidentiality Agreement without the necessity of posting any bond or other security. This relief is necessary due to the fact that future damages to either party are indeterminable and not subject to exact measure. Such remedies shall not be exclusive and either party may seek any other remedy available at law or in equity.

4. Each of the parties agrees that it will not hire any of the current employees of the other for a period of two (2) years from the date of this Agreement, except by express written permission of the other party.

5. The parties agree that if either of them violates this Agreement, and the other party is forced to enforce the Agreement, the nonbreaching party shall be entitled to recover all reasonable attorney's fees and court costs necessary to enforce the term of this Agreement from the breaching party.

6. In the event either party notifies the other that it does not want to continue discussions or proceed with a business relationship, all written Confidential Information, including all copies thereof, provided by each Disclosing Party will be returned to such Disclosing Party or destroyed immediately upon written request of the Disclosing Party. If a Receiving Party is requested or required to disclose any Confidential Information, such Receiving Party will provide the Disclosing Party with prompt written notice of such request or requirement so that the Disclosing Party may seek an appropriate protective order or other remedy and/or waive its rights under this Agreement with respect to that portion of the Confidential Information which comes within the scope of the request or requirement. If, in the absence of a protective order, the Receiving Party is compelled to disclose any Confidential Information, it may disclose such information without liability under this Agreement.

7. The covenants and agreements herein shall survive the termination of discussions or any business relationship between the parties and shall remain in full force and effect with respect to any information until the same ceases to be Confidential Information as defined above. The validity, construction, and enforceability of this Agreement shall be governed in all respects by the laws of the United States and State of Minnesota applicable to agreements made and to be performed entirely within the State of Minnesota, without regard to the principles of comity or conflicts of laws of the State of Minnesota or any other state.

8. This Agreement is not intended to supersede the provisions of the Confidentiality Agreement between the parties dated November 27, 2002, which remains in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

FLEXSTEEL INDUSTRIES, INC.

By: /s/ K. BRUCE LAURITSEN

K. Bruce Lauritsen
President & Chief Executive Officer

DMI FURNITURE, INC.

By: /s/ DONALD D. DREHER

Donald D. Dreher
President & Chief Executive Officer