

SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, D. C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE
 SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended December 31, 1998 Commission file number 0-5151

FLEXSTEEL INDUSTRIES, INC.

Incorporated in State of Minnesota I.R.S. Identification No. 42-0442319

FLEXSTEEL INDUSTRIES, INC.
 P. O. BOX 877
 DUBUQUE, IOWA 52004-0877

Area code 319 Telephone 556-7730

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes X . No .

Common Stock - \$1.00 Par Value
 Shares Outstanding as of December 31, 1998 6,827,017

FLEXSTEEL INDUSTRIES, INC.
 BALANCE SHEETS (UNAUDITED)

	December 31, 1998	June 30, 1998
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,554,715	\$ 5,464,261
Investments	10,374,470	9,877,784
Trade receivables - less allowance for doubtful accounts:		
December 31, 1998, \$2,460,000;		
June 30, 1998, \$2,198,000	26,364,745	28,722,752
Inventories	29,332,585	26,607,296
Deferred income taxes	2,785,000	2,785,000
Other	711,135	632,730
	-----	-----
Total current assets	75,122,650	74,089,823
PROPERTY, PLANT, AND EQUIPMENT		
at cost less accumulated depreciation:		
December 31, 1998, \$53,497,753;		
June 30, 1998, \$51,333,347	24,553,929	23,095,589
OTHER ASSETS	7,542,374	7,487,729

TOTAL	\$107,218,953	\$104,673,141
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable - trade	\$ 6,295,573	\$ 5,792,708
Accrued liabilities:		
Payroll and related items	3,783,663	5,448,032
Insurance	5,152,156	5,834,895
Other accruals	6,026,101	4,515,177
Industrial revenue bonds payable	1,950,000	1,950,000
	-----	-----
Total current liabilities	23,207,493	23,540,812
DEFERRED COMPENSATION	3,077,625	3,052,525
	-----	-----
Total liabilities	26,285,118	26,593,337
	-----	-----
SHAREHOLDERS' EQUITY:		
Common Stock - \$1 par value; authorized 15,000,000 shares; issued December 31, 1998, 6,827,017 shares;		
issued June 30, 1998, 6,794,730 shares	6,827,017	6,794,730
Additional paid-in capital	317,341	
Retained earnings	72,801,069	70,450,282
Unrealized investment gain	988,408	834,792
	-----	-----
Total shareholders' equity	80,933,835	78,079,804
	-----	-----
TOTAL	\$107,218,953	\$104,673,141
	=====	=====

See accompanying Notes to Financial Statements

FLEXSTEEL INDUSTRIES, INC.
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)

STATEMENTS OF INCOME

	Three Months Ended December 31,		Six Months Ended December 31,	
	1998	1997	1998	1997
NET SALES	\$ 62,575,129	\$ 56,260,249	\$122,628,510	\$111,419,373
COST OF GOODS SOLD	48,435,226	44,312,905	95,338,293	88,180,395
GROSS MARGIN	14,139,903	11,947,344	27,290,217	23,238,978
SELLING, GENERAL AND ADMINISTRATIVE	10,890,191	10,064,132	21,430,161	19,900,923
OPERATING INCOME	3,249,712	1,883,212	5,860,056	3,338,055
OTHER:				
Interest and other income	301,818	1,094,140	576,506	1,340,409
Interest and other expense ...	79,782	87,297	159,911	173,559
Total	222,036	1,006,843	416,595	1,166,850
INCOME BEFORE INCOME TAXES	3,471,748	2,890,055	6,276,651	4,504,905
PROVISION FOR INCOME TAXES	1,275,000	790,000	2,285,000	1,375,000
NET INCOME	\$ 2,196,748	\$ 2,100,055	\$ 3,991,651	\$ 3,129,905
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:				
BASIC	6,841,514	6,956,174	6,831,929	6,957,269
DILUTED	6,915,103	7,024,263	6,899,896	7,018,357
EARNINGS PER SHARE OF COMMON STOCK:				
BASIC	\$ 0.32	\$ 0.30	\$ 0.58	\$ 0.45
DILUTED	\$ 0.32	\$ 0.30	\$ 0.58	\$ 0.45

STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended December 31,		Six Months Ended December 31,	
	1998	1997	1998	1997
NET INCOME	\$ 2,196,748	\$ 2,100,005	3,991,651	3,129,905
OTHER COMPREHENSIVE INCOME BEFORE TAX:				
Unrealized gains on securities arising during period ...	363,556	218,000	237,119	418,500
Less: reclassification adjustment for gains (losses) included in net income	4,844	(95,000)	4,844	(95,000)
Other comprehensive income, before tax	368,400	123,000	241,963	323,500
INCOME TAX BENEFIT (EXPENSE):				
Income tax expense related to securities gains arising during period ..	(130,880)	(76,300)	(85,363)	(146,475)
Income tax benefit related to securities reclassification adjustment ..	(1,744)	33,250	(1,744)	33,250
Income tax benefit (expense) related to other comprehensive income ...	(132,624)	(43,050)	(87,107)	(113,225)
OTHER COMPREHENSIVE INCOME, NET OF TAX	235,776	79,950	154,856	210,275
COMPREHENSIVE INCOME	\$ 2,432,524	\$ 2,179,955	4,146,507	3,340,180

See accompanying Notes to Financial Statements.

FLEXSTEEL INDUSTRIES, INC.
CONDENSED STATEMENTS OF CASH FLOW (UNAUDITED)

	Six Months Ended December 31,	
	----- 1998 -----	----- 1997 -----
OPERATING ACTIVITIES:		
Net Income	\$ 3,991,651	\$ 3,129,905
Adjustments to reconcile net income to net cash provided by operating activities	1,775,047	2,459,842
Net cash provided by operating activities	----- 5,766,698 -----	----- 5,589,747 -----
INVESTING ACTIVITIES:		
Purchases of investments	(2,297,528)	(3,495,933)
Proceeds from sales of investments	1,954,458	846,805
Proceeds from sales of capital assets ...	36,328	162,056
Capital expenditures	(4,080,043)	(1,810,420)
Net cash used in investing activities	----- (4,386,785) -----	----- (4,297,492) -----
FINANCING ACTIVITIES:		
Payment of dividends	(1,639,087)	(1,668,229)
Proceeds from issuance of common stock ..	549,253	364,873
Repurchase of common stock	(199,625)	(38,250)
Net cash used in financing activities	----- (1,289,459) -----	----- (1,341,606) -----
Increase (decrease) in cash and cash equivalents	90,454	(49,351)
Cash and cash equivalents at beginning of year .	5,464,261	4,445,327
Cash and cash equivalents at end of period	----- \$ 5,554,715 =====	----- \$ 4,395,976 =====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for		
Interest	\$ 37,000	\$ 48,000
Income taxes	\$ 2,723,000	\$ 2,564,000

See accompanying Notes to Financial Statements.

FLEXSTEEL INDUSTRIES, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

1. The accompanying financial statements, which are unaudited, have been prepared in accordance with generally accepted accounting principles applied on a consistent basis, which is consistent with that followed in the financial statements for the year ended June 30, 1998. The statements include all adjustments (comprised of only normal recurring adjustments) which are, in the opinion of management, necessary to a fair statement of the financial position and results of operations and cash flows, prepared on a summary basis, as of such dates and for the stated dates then ended. The results of operations for the six month period ended December 31, 1998 are not necessarily indicative of the results which may be expected for the year ending June 30, 1999.

2. The inventories are categorized as follows:

	December 31, 1998	June 30, 1998
	-----	-----
Raw materials	\$14,591,115	\$13,538,911
Work in process and finished parts	8,203,252	7,227,558
Finished goods	6,538,218	5,840,827
	-----	-----
Total	\$29,332,585	\$26,607,296
	=====	=====

3. In 1997, the Financial Accounting Standards board issued Statement No. 128, EARNINGS PER SHARE (SFAS 128). SFAS 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of stock options. All earnings per share amounts for all periods have been presented and, where appropriate, restated to conform to the SFAS 128 requirements.

	Three Months Ending December 31,		Six Months Ending December 31,	
	-----	-----	-----	-----
	1998	1997	1998	1997
	-----	-----	-----	-----
Basic Earnings Per Share:				
Income available to common shareholders	\$ 2,196,748	\$ 2,100,055	3,991,651	\$ 3,129,905
Weighted average shares outstanding	6,841,514	6,956,174	6,831,929	6,957,269
	-----	-----	-----	-----
Earnings Per Share - Basic	0.32	0.30	0.58	0.45
	=====	=====	=====	=====
Diluted Earnings Per Share:				
Income available to common shareholders	\$ 2,196,748	\$ 2,100,055	\$ 3,991,651	\$ 3,129,905
	-----	-----	-----	-----
Weighted average shares outstanding	6,841,514	6,956,174	6,831,929	6,957,269
Dilutive shares issuable in connection with stock option plans	504,445	431,295	461,220	382,908
Less shares purchasable with proceeds	(430,856)	(363,206)	(393,253)	(321,820)
	-----	-----	-----	-----
Total Shares	6,915,103	7,024,263	6,899,896	7,018,357
	-----	-----	=====	=====
Earnings Per Share - Diluted	\$ 0.32	\$ 0.30	\$ 0.58	\$ 0.45
	=====	=====	=====	=====

4. RECLASSIFICATIONS - certain prior year amounts have been reclassified to conform to the 1998 presentation. These reclassifications had no impact on net income or shareholders' equity as previously reported.

FLEXSTEEL INDUSTRIES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE CONDENSED STATEMENT OF
EARNINGS

Results of Operations:

The following table has been prepared as an aid in understanding the Company's results of operations on a comparative basis for the second quarter and six month ended December 31, 1998 and 1997. Amounts presented are percentages of the Company's net sales.

	Second Quarter Ended December 31,		Six Month Ending December 31,	
	1998	1997	1998	1997
Net Sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	77.4%	78.8%	77.7%	79.1%
Gross margin	22.6%	21.2%	22.3%	20.9%
Selling, general & administrative expense	17.4%	17.9%	17.5%	17.9%
Operating income	5.2%	3.3%	4.8%	3.0%
Other income, net	0.4%	1.7%	0.4%	1.0%
Income before income taxes	5.6%	5.0%	5.2%	4.0%
Income tax expense	2.0%	1.4%	1.9%	1.2%
Net income	3.6%	3.6%	3.3%	2.8%

RESULTS OF OPERATIONS FOR THE QUARTER - Net sales for the quarter ended December 31, 1998, increased by \$6,315,000 or 11.2% compared to the prior year quarter. Residential sales volume increased \$2,750,000 or 8%. Recreational vehicle seating sales increased \$2,188,000 or 12.9%. Commercial seating volume increased \$1,377,000 or 26.6%.

Gross margin increased \$2,192,559 to \$14,139,903 or 22.6% of sales, in the current year, from \$11,947,344 or 21.2% in the prior year. The gross margin percentage increase was due primarily to improved utilization of available production capacity.

Selling, general and administrative expenses as a percentage of sales were 17.4% and 17.9% for the current quarter and comparable prior year quarter, respectively. The cost percentage decrease was due to improved absorption of fixed costs.

The prior year quarter ended December 31, 1997 included non-taxable other income of \$720,000, or \$0.10 per share, from life insurance proceeds which resulted in higher net other income, as well as, a lower effective tax rate.

The above factors resulted in current quarter earnings of \$2,196,748 or \$0.32 per share (diluted) compared to \$2,100,055 or \$0.30 per share (diluted) in the comparable prior year quarter, a net increase of \$96,693 or \$0.02 per share. Excluding the life insurance proceeds reported in the prior year, net earnings for the quarter ended December 31, 1998, improved \$0.12 per share over the prior year quarter.

RESULTS OF OPERATIONS FOR THE LAST SIX MONTHS - Net sales for the six-months ended December 31, 1998, increased by \$11,209,000 or 10.1% compared to the prior year six-month period. Residential sales volume increased \$6,332,000 or 9.6%. Recreational vehicle seating sales increased \$3,434,000 or 9.7%. Commercial seating volume increased \$1,443,000 or 14.1%.

Gross margin increased \$4,051,239 to \$27,290,217 or 22.3% of sales, in the current year, from \$23,238,978 or 20.9% in the prior year. The gross margin percentage increase was due primarily to improved utilization of available production capacity.

Selling, general and administrative expenses as a percentage of sales were 17.5% and 17.9% for the current year and prior year, respectively. The cost percentage decrease was due to improved absorption of fixed costs.

The prior year six-months ended December 31, 1997 included non-taxable other income of \$720,000, or \$0.10 per share, from life insurance proceeds which resulted in higher net other income, as well as, a lower effective tax rate.

The above factors resulted in current fiscal year earnings of \$3,991,651 or \$0.58 per share (diluted) compared to \$3,129,905 or \$0.45 per share (diluted) in the prior year, a net increase of \$861,746 or \$0.13 per share. Excluding the life insurance proceeds reported in the prior year, net earnings for the six-months ended December 31, 1998, improved \$0.23 per share or 64% over the prior year six-month period.

Liquidity and Capital Resources:

Working capital at December 31, 1998 is \$51,915,000 which includes cash, cash equivalents and investments of \$15,929,000. Working capital increased by \$1,366,000 from the June 30, 1998 amount. Net cash provided by operating activities was \$5,767,000 during the first six months of fiscal year 1999 versus \$5,590,000 in the first six months of fiscal year 1998.

Capital expenditures were \$4,080,000 and \$1,080,000 during the first six months of fiscal 1999 and 1998, respectively. The current year expenditures were incurred primarily for manufacturing and delivery equipment and the expansion of our Dublin, Georgia facility. During the next six months approximately \$4,000,000 will be spent on manufacturing equipment and facility additions including completion of the expansion project in Georgia. The funds for projected capital expenditures are expected to be provided by cash generated from operations and available cash.

On November 4, 1998 the Company announced a plan to repurchase up to 700,000 shares, or slightly more than 10% of the Company's outstanding common stock. The Company will make the purchases, from time to time, in the open market as the Company deems appropriate. Under this authorization, 41,000 shares of common stock have been repurchased to date.

Year 2000 Issue - The Company has been modifying its computer information systems to ensure the proper processing of transactions relating to the year 2000 and beyond. The Company has also reviewed its computer-dependent manufacturing activities and necessary hardware and software changes are being made. The Company expects its year 2000 conversion projects to be completed by June 30, 1999. The conversion costs are not expected to be material to the financial statements and will be accomplished using existing employees. The Company is communicating with major suppliers to emphasize that operations must continue without interruption through January 1, 2000. However, there can be no assurances that systems of other companies, on which the Company's systems rely, will be converted in a timely manner or that any failure to convert by another company would not have an adverse effect on the Company's system.

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

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

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

materials, the amount of sales generated and the profit margins thereon or volatility in the major markets, competition and general economic conditions.

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

PART II OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

At the annual meeting of stockholders on December 15, 1998, Proposals one and two set forth in the Board of Directors' definitive Proxy Statement dated November 13, 1998, were approved and adopted by the stockholders. Proposals one and two, respectively, received votes as follows:

Proposal 1 (Election of Directors): Edward J. Monaghan: For 5,216,810, Withheld 10,415, Abstentions and Broker Non-votes 1,617,806. Jeffrey T. Bertsch: For 5,217,065, Withheld 10,160, Abstentions and Broker Non-votes 1,617,806. The names of each Director whose term of office as a Director continued after the meeting are as follows: K. Bruce Lauritsen, Thomas E. Holloran, L. Bruce Boylen, John R. Easter, James R. Richardson and Patrick M. Crahan.

Proposal 2 (Appointment of Deloitte & Touche, LLP as Independent Auditors): For: 5,465,842, Against: 14,368, and Abstain: 3,615.

Item 6. Exhibits and Reports on Form 8-K

The registrant filed on January 4, 1999, a report on Form 8-K which reported that John R. Easter was elected Chairman of the Board when Jack B. Crahan, standing Chairman of the Board, declined to stand for re-election to the Board of Directors. Long-time board member Art D. Richardson retired, and Marvin M. Stern was appointed to the registrant's Board of Directors.

The registrant has amended Article V Section 2 of its Bylaws. The Bylaws as amended are attached hereto as Exhibit A.

FLEXSTEEL INDUSTRIES, INC.

Date: February 12, 1999

By: /s/ R. J. Klosterman

R.J. Klosterman
Financial Vice President &
Principal Financial Officer

FLEXSTEEL INDUSTRIES, INC.

RESTATED BYLAWS

ARTICLE I.
OFFICES

Section 1. A registered office shall be located in the State of Minnesota.

Section 2. The corporation may also have offices at such other places both within and without the State of Minnesota as the Board of Directors may from time to time determine or the business of the corporation may require.

ARTICLE II.
REGULAR MEETINGS OF SHAREHOLDERS

Section 1. All regular meetings of shareholders shall be held at such time and place within or without the State of Minnesota as shall be stated in the Notice of the meeting or in a duly executed waiver of notice. The time and place of the meeting shall be set by the Chief Executive Officer and in his absence or, if he refuses to act, it shall be reasonably set by any other executive officer of the corporation or by two or more Directors. The notice shall be given at least fifteen days before the meeting and not more than sixty days before the date of the meeting. The notices shall be sent out by the Corporate Secretary, or in his absence the Corporate Assistant Secretary.

Section 2. A regular meeting of the shareholders shall be held annually. At the annual meeting, after a quorum is present, the shareholders shall elect by a majority vote of the shareholders present in person or proxy, Directors and shall transact such other business as may be properly brought before the meeting. Nomination for Directors shall be made as specified in the Restated Articles of Incorporation.

Section 3. Written or printed notice of the annual meeting stating the place, day and hour of the meeting shall be mailed by first class prepaid mail to the address of each shareholder as shown on the records of the corporation, entitled to vote thereat, not less than fifteen days before the date of the meeting nor more than sixty days before the meeting.

ARTICLE III.
SPECIAL MEETINGS OF SHAREHOLDERS

Section 1. Special meetings of shareholders for any purpose may be held at such time and place within or without the State of Minnesota as shall be stated in the notice of the meeting or in a duly executed waiver of notice thereof.

Section 2. Special meetings of shareholders may be called at any time, or for any purpose or purposes by the following, giving notice to the Secretary and in the Secretary's absence to the Assistant Secretary to send out the proper notice:

- a. the Chief Executive Officer,
- b. the Chief Financial Officer or any other executive officer,
- c. two or more Directors.

Section 3. Shareholder(s) owning 10 percent or more of the voting power of all shares entitled to vote for Directors may demand a special meeting of shareholder by written demand stating the purpose of the meeting and given to the CEO or the CFO.

Section 4. Written or printed notice of a special meeting of shareholders, stating the time, place and purpose or purposes thereof, shall be mailed by first class prepaid mail to the address of each shareholder entitled to vote thereat as shown on the records of the corporation, at least ten days before the date fixed for the meeting and not more than sixty days before the date of the meeting.

ARTICLE IV.
QUORUM AND VOTING STOCK

Section 1. The holders of a majority of the shares of stock issued and outstanding and entitled to vote, represented in person or by proxy, shall constitute a quorum at all meetings of the shareholders for the transaction of business except as otherwise provided by statute or by the Restated Articles of Incorporation. If, however, such quorum shall not be present or represented at any meeting of the shareholders, the shareholders present in person or

represented by proxy shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented any business may be transacted which might have been

transacted at the meeting as originally notified.

Section 2. If a quorum is present, the affirmative vote of a majority of the shares of stock represented at the meeting shall be the act of the shareholders unless the vote of a greater number of shares of stock is required by the Restated Articles of Incorporation.

Section 3. Each outstanding share of stock, having voting power, shall be entitled to one vote, unless otherwise specified in the Restated Articles of Incorporation, on each matter submitted to a vote at a meeting of shareholders. A shareholder may vote either in person or by a properly executed written proxy. The determination of its validity shall be determined by the Secretary (or in his absence the Assistant Secretary) of the corporation with the advice of Counsel, if requested. Said Secretary's determination is final and binding on all parties.

ARTICLE V. DIRECTORS

Section 1. The number of Directors, and their classification, shall be set by the Board by the procedure set out in the Restated Articles of Incorporation. The Board of Directors may propose a nomination for each open directorship which may be filled at the annual meeting. Directors need not be residents of the State of Minnesota nor shareholders of the corporation. The Directors may be elected at the annual meeting of shareholders and each Director elected shall serve until his successor shall have been elected and qualified, or until the earlier death, resignation, removal or disqualification of the Director, or until the successor has been appointed by the Board and qualified.

Section 2. No person may be a Director of the company after the day on which that person becomes seventy years of age, except for persons who were Directors on March 5, 1992. Except for persons who were Directors on March 5, 1992, this provision shall automatically terminate a person being a Director.

The application of the above referenced 70 year age limit may be waived for any Director(s) by a two-thirds affirmative vote of the Board for such period as the Board so votes.

This provision may be altered, amended, modified or repealed only by the affirmative vote of 2/3rds of the entire Board of Directors.

Section 3. Any vacancy occurring in the Board of Directors

may be filled for the term and by the procedure set out in the Restated Articles of Incorporation.

Any directorship to be filled by reason of an increase in the number of Directors may be filled for the term and by the procedure set out in the Restated Articles of Incorporation.

Section 4. The business affairs of the corporation shall be managed by its Board of Directors which may exercise all such powers of the corporation and do all such lawful acts and things as are not by statute or by the Restated Articles of Incorporation or by these By-Laws directed or required to be exercised or done solely by the shareholders.

At the next Board of Directors meeting following the stockholder's meeting, herein called the Annual Director's Meeting, the Board shall elect officers for the corporation and take such action as is appropriate regarding standing committees of the Board.

Section 5. The Directors may keep the books of the corporation at such place or places as they may from time to time determine.

Section 6. The Board of Directors, by the affirmative vote of a majority of the Directors then in office, and irrespective of any personal interest of any of its members, shall have authority to establish reasonable compensation of all Directors for services to the corporation as Directors, Officers or otherwise.

ARTICLE VI.
MEETINGS OF THE BOARD OF DIRECTORS

Section 1. Meetings of the Board of Directors, regular or special, may be held either within or without the State of Minnesota and may be held electronically or by telephone.

Section 2. Regular quarterly meetings of the Board of Directors may be held upon such notice, or without notice, and at such time and place as shall from time to time be determined by the Board, any Board member or the CEO.

Section 3. Special meetings of the Board of Directors may be held upon such notice, or without notice, and at such time and at such place as shall from time to time be determined by the Board, any Board member or the CEO.

Section 4. Attendance of a Director at any meeting shall

constitute a waiver of notice of such meeting. Neither the business to be transacted, nor the purpose of any regular or special meeting of the Board of Directors need be specified in the notice or waiver of notice of such notice.

Section 5. A majority of the then members of the Board of Directors shall constitute a quorum for the transaction of business, but if no quorum is present, the meeting may be adjourned without further notice from time to time until a quorum is present. When a quorum is present at any meeting, a majority of the members present thereat shall decide any question brought before such meeting, and the decision shall be the act of the Board of Directors, unless the act of a greater number is required by statute or by the Restated Articles of Incorporation or the Bylaws.

Section 6. Any action required or permitted to be taken at a meeting of the Directors may be taken without a meeting if a consent in writing, setting forth the action so taken, either before or after the action, shall be signed by all of the Directors entitled to vote with respect to the subject matter thereof.

Section 7. An absent Director may give advance written consent or opposition to a proposal to be acted on at a Board meeting and it shall be counted in the tally of votes on the proposal. The consent or objection does not permit the Director to be counted as a part of a quorum.

ARTICLE VII.
COMMITTEES OF THE BOARD

At the Annual Director's Meeting at which Officers of the corporation are elected, the chairman of the Board of Directors, or in his absence, the highest ranking Officer of the corporation who is a Director shall appoint yearly the Standing Committees of the Board and their members subject to ratification by resolution adopted by the affirmative vote, as required in the sections below, of the Board of Directors. This duty, on occasion, and the filling of any vacancies in the membership of a committee, may be exercised later on in the year at any general or special Board meeting.

The members shall serve at will, and unless their committee is earlier terminated, until the next Annual Director's Meeting at which Officers of the corporation are elected. Then their membership shall terminate.

Committees may use financial and other information provided by Flexsteel's CEO, President, CFO, company accountants, Flexsteel's public accountants, outside professional experts and others to aid in arriving at their judgement. The Committees may hire and employ attorneys, accountants, auditors, advisors and other qualified professionals to aid in connection with Committee matters.

Section 1. Executive Committee.

The Board of Directors, by two-thirds (2/3rds) affirmative vote of the Board, may establish and maintain an Executive Committee. Established, the Executive Committee shall be composed of two or more Directors who shall have and exercise the authority of the Board of Directors in the management of the business of the corporation when the Board is not in session. Vacancies in the membership of the committee shall be filled by the affirmative vote of two-thirds (2/3rds) of the Board of Directors at a regular or special meeting of the Board. The Executive Committee shall keep regular minutes of its proceedings and report the same regularly to the Board members.

Section 2. Audit and Ethics Committee

The Board of Directors, by a majority affirmative vote of the Board, shall establish and maintain an Audit and Ethics Committee, a majority of its members shall be independent Directors. Vacancies in the membership of the committee shall be filled by the affirmative vote of the majority of the Board of Directors at a regular or special meeting of the Board. For this committee, an "Independent Director" is one who has not been an employee or officer of the corporation during the last three years or has never been an employee or officer of the corporation and is free of any relationship which in the opinion of the Board of Directors would interfere with the Director's exercise of independent judgement in carrying out the responsibilities of a committee member.

The principal independent accountants shall have full access to meet with the Audit and Ethics Committee with or without management representatives present to discuss the results of their examinations, the adequacy of internal accounting controls, the quality of financial reporting and other relevant matters.

If one or more Audit and Ethics Committee member(s) declines to participate or act upon some matter because of a conflict of interest, then the remaining Committee member(s) shall constitute the entire Audit and Ethics Committee in dealing with that particular matter. If all Committee members decline to

participate or act upon some particular matter due to their conflicts of interest, then the Board of Directors, by resolution adopted by the affirmative vote of a majority of the Board of Directors, may designate persons who are not employees or officers of the corporation, up to the number of Audit and Ethics Committee members who have declined to act on the matter, for the purpose of acting as the Audit and Ethics Committee on that particular matter.

The following are the duties, functions and responsibilities of the Audit and Ethics Committee:

1. Review and monitor the corporation's financial results, the financial statements, accounting practices and internal controls presented to them by the company's management and the independent accountants.
2. Review all related party transactions of which the committee is informed on an ongoing basis.
3. Review potential conflict of interest situations of which the committee is informed on an ongoing basis.
4. Review and revise if necessary the corporations "Guidelines for Business Conduct."
5. Review Business Conduct Compliance Reporting and revise if warranted.
6. The committee may be assigned other duties by the Board and the CEO.
7. The committee shall keep regular minutes of its proceedings and report to the Board at least once a year.

Section 3. Nominating & Compensation Committee.

The Board of Directors, by a majority affirmative vote of the Board, may establish and maintain a Nominating and Compensation Committee. If established, said committee shall be composed of two or more Directors, the majority of which need not be Independent Directors. Vacancies in the membership of the committee shall be filled by the affirmative vote of the majority of the Board of Directors at a regular or special meeting of the Board.

The committee shall:

1. In consultation with the Executive Committee, recommend

to the Board the number of Board members, composition, selection, recruitment, origination, compensation and duties.

2. In consultation with the Executive Committee, recommend to the Board concerning the appointment of the CEO and reviewing and analyzing his performance and compensation.

3. In consultation with the CEO, aid with the selection, review of performance and compensation of the other five top executive officers.

4. All corporate pensions, compensation, incentive compensation and short and long term compensation policies shall be formulated by the Executive Committee submitted to the Nominating and Compensation Committee for review, analysis and comment.

5. In consultation with the Executive Committee, determine stock option grants, terms and type to be awarded.

6. The committee may be assigned other duties by the Board and the CEO.

The committee shall keep regular minutes of its proceedings and report to the Executive Committee and to the Board.

Section 4. Other Committees.

The Board of Directors by resolution adopted by the affirmative vote of a majority of the Board of Directors may by resolution designate two or more of its members to constitute other committees. The Committee must be named and its rights, powers and duties and classification of its members must be specified in the resolution. Vacancies in the membership of the Committee shall be filled by a majority affirmative vote of the Board of Directors at a regular or special meeting of the Board. The Committee shall keep regular minutes of its proceedings and report the same to the Board.

ARTICLE VIII.
NOTICES

Section 1. Whenever, under the provisions of the statutes or of the Restated Articles of Incorporation or of these By-Laws, notice is required to be given to any Director or shareholder, it shall not only be construed to mean personal notice, but such notice may be given in writing, by first class mail, addressed to such Director or shareholder, at his address as it appears on the records of the corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States Mail. Notice to Directors may also be given by telegram, telephone or other reliable means. Notice requires in the Restated Articles of Incorporation supersede this section to the extent of any conflict.

Section 2. The Board of Directors may appoint or arrange for the appointment of such other officers and agents as it shall deem necessary who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors.

ARTICLE IX.
OFFICERS

Section 1. The Board of Directors may elect from its own number a Chairman of the Board and shall elect a President from its own number. The Board of Directors shall designate a CEO. The Board of Directors may elect Vice-Presidents and shall designate a CFO and a Secretary and Treasurer. As additional corporate officers, the Board of Directors may also choose General Counsels and one or more Assistant Secretaries and Assistant Treasurers.

Section 2. The Board of Directors may appoint or arrange for the appointment of such other offices and agents as it shall deem necessary who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors, the CEO or others designated in the Bylaws.

Section 3. The salaries of all Executive Officers of the corporation shall be fixed or arranged for by the Board of Directors.

Section 4. The officers of the corporation hold their office at the pleasure of the Board of Directors. Any officer may be removed at any time by the affirmative vote of a majority of the Board of Directors present. Any vacancy occurring in any office of the corporation may be filled or arranged to be filled by the

Board of Directors. In its discretion, the Board of Directors may leave unfilled for any period as it may fix by resolution, any office except those of CEO, President, CFO, Treasurer and Secretary.

CHAIRMAN OF THE BOARD OF DIRECTORS

Section 5. The Chairman of the Board of Directors, if elected, or failing his election, or in his absence, the President, shall preside at all meetings of the Board of Directors and the Chairman of the Board of Directors shall perform such other duties as may be prescribed from time to time by the Board of Directors or by the By-Laws. The Chairman may be the CEO.

C E O

Section 6. The CEO, designated by the Board of Directors, shall be the Chief Executive and Administrative Officer of the company and all officers of the company shall, through their line of command or authority, be responsible ultimately to him.

THE PRESIDENT

Section 7. The President may be the Chief Executive and Administrative Officer of the company. He may preside at all meetings of the shareholders and, in the absence of the Chairman of the Board, at meetings of the Board of Directors. He shall exercise such duties as customarily pertain to the office of the President and shall have general and active management of the business of the corporation and shall see that all orders and resolutions of the Board of Directors and CEO are carried into effect. He may appoint or arrange for the appointment of officers, agents, or employees other than those appointed by the Board of Directors. He may sign, execute and deliver in the name of the company, powers of attorney, contracts, mortgages, bonds, and other obligations and shall perform such other duties as may be prescribed from time to time by the Board of Directors, the CEO or by the By-Laws.

THE VICE-PRESIDENTS

Section 8a. The Board of Directors shall appoint an Executive Vice-President who shall possess all the powers and may perform the duties of the President in his absence or disability and shall perform such other duties as may be prescribed from time to time by the Board of Directors, the CEO, or the President.

Section 8b. The Vice-Presidents shall have such powers and perform such duties as may be assigned to them by the Board of Directors, the CEO or the President. A Vice-President may sign

and execute contracts and other obligations pertaining to the regular course of his duties. The Financial Vice-President (CFO) is the Chief Financial and Accounting Officer of the corporation unless otherwise designated.

THE SECRETARY AND ASSISTANT SECRETARIES

Section 9a. The Secretary shall give, or cause to be given, notice of all meetings of the shareholders and meetings of the Board of Directors, as is required by Article II or Article III, and shall perform such other duties as may be prescribed by the Board of Directors, the CEO or President. He shall have custody of the Corporate Seal of the corporation and he, or an Assistant Secretary, shall have authority to affix the same to any instrument requiring it and when so affixed, it may be attested by his signature or by the signature of such Assistant Secretary or other officer. The Board of Directors, the CEO or the President may give general authority to any other officer to affix the seal of the corporation and to attest the affixing by his signature.

Section 9b. The Assistant Secretary, or if there be more than one, the Assistant Secretaries, in the order determined by the Board of Directors, the CEO or the President, shall, in the absence or disability of the Secretary, perform the duties and exercise the powers of the Secretary and shall perform such other duties and have such other powers as the Board of Directors, the CEO, the President or the Secretary may from time to time prescribe.

THE TREASURER AND ASSISTANT TREASURERS

Section 10a. The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the corporation in such depositories as are appropriate.

Section 10b. He shall disburse the funds of the corporation, taking proper vouchers for such disbursements.

Section 10c. The Assistant Treasurer, or if there shall be more than one, the Assistant Treasurers, in the order determined by the Board of Directors, the CEO, or the President shall, in the absence or disability of the Treasurer, perform such other duties and have such other powers as may from time to time be prescribed by the Board of Directors, the CEO, the President or the Treasurer.

Section 10d. In addition to such bank accounts as may be

authorized in the usual manner by resolution of the Board of Directors, the Treasurer of the company with the approval of the CEO or President or the CFO may authorize such bank accounts to be opened or maintained in the name and on behalf of the company as he may deem necessary or appropriate; payments from such bank accounts to be made upon and according to the check of the company which may be signed jointly or singularly by either manual or facsimile signature or signatures of such officer or employee as designated by the Treasurer with the approval of the CEO or President or CFO.

GENERAL COUNSEL

Section 11. The Board of Directors may elect General Counsels and Assistant General Counsel as corporate officers. Counsels shall perform such duties as may be prescribed from time to time by the Board of Directors, the CEO, the President, or by the Bylaws. The General Counsel may sign and execute pleadings, powers of attorney, contracts, bonds, other obligations of the company and documents in the regular course of his duties. He may act as counsel to the Board of Directors.

ARTICLE X. CERTIFICATES FOR SHARES

Section 1a. The shares of the corporation shall be represented by certificates signed manually or by facsimile by the CEO, President, or CFO and the Secretary or an Assistant Secretary of the corporation, and may be sealed with the seal of the corporation or a facsimile thereof.

CERTIFICATE FIXING EQUALITY

Section 1b. Before the corporation shall allot any shares of any class, or of any series of any class, of which the dividend rate, the redemption price, the liquidation price, the conversion rights, the sinking or purchase fund rights, or the number of shares constituting any series is not set forth in the Restated Articles of Incorporation but is fixed in a resolution adopted by the Board of Directors pursuant to authority given by the Restated Articles of Incorporation, a certificate setting forth a copy of said resolution, made by the President or a Vice-President of the corporation and by its Secretary or an Assistant Secretary and acknowledged, shall be filed for record in the office of the Secretary of State of Minnesota.

CONTENTS OF STOCK CERTIFICATES

Section 1c. Every certificate of shares shall state:

- (1) The name of the corporation, and a statement that it is organized under the laws of the State of Minnesota;
- (2) The name of the registered holder of the shares represented thereby;
- (3) The number of shares, and, if the corporation is authorized to issue shares of more than one class, the class, or series and class, of the shares represented thereby;
- (4) The par value of each share represented, or a statement that such shares are without par values; and
- (5) A certificate representing shares issued by the corporation authorized to issue shares of more than one class or series shall set forth upon the face or back of the certificate, or shall state that the corporation will furnish to any shareholder upon request and without charge, a full statement of the designations, preferences, limitations, and relative rights of the shares of each class or series authorized to be issued, so far as they have been determined, and the authority of the Board to determine the relative rights and preferences of subsequent classes or series.

SIGNATURES

Section 2. The signatures of the officers of the corporation upon a certificate may be facsimiles if the certificate is countersigned by a transfer agent, or registered by a registrar, other than the corporation itself. In case any officer who has signed or whose facsimile signature has been placed upon such certificate shall have ceased to be such officer before such certificate is issued, it may be issued by the corporation with the same effect as if he were such officer at the date of its issue.

LOST CERTIFICATES

Section 3. The CEO, President, CFO or Treasurer may direct a new certificate to be issued in place of any certificate theretofore issued by the corporation alleged to have been lost or destroyed. When authorizing such issue of a new certificate, the CEO, President, CFO or Treasurer in his discretion and as condition precedent to the issuance thereof, may prescribe such terms and conditions as is deemed expedient, and may require a bond or such other indemnities as is deemed adequate to protect

the corporation from any claim that may be made against it with respect to any such certificate alleged to have been lost or destroyed.

TRANSFER OF SHARES

Section 4. Upon surrender to the corporation or the transfer agent of the corporation of a certificate representing shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, a new certificate shall be issued to the person entitled thereto, and the old certificate cancelled and the transaction recorded upon the books of the corporation.

CLOSING OF TRANSFER BOOKS

Section 5. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders, or shareholders entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purpose, the Board of Directors shall fix in advance a date as the record date for any such determination of shareholders, such date in any case to be not more than 60 days and, in case of a meeting of shareholders, not less than 10 days prior to the date on which the particular action requiring such determination of shareholders is to be taken.

REGISTERED SHAREHOLDERS

Section 6. The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any person, whether or not it shall have express notice or other notice thereof, except as otherwise provided by the laws of the State of Minnesota.

ARTICLE XI. GENERAL PROVISIONS DIVIDENDS

Section 1. Subject to the provisions of the Restated Articles of Incorporation relating thereto, dividends, if any, may be declared by the Board of Directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property or in shares of the capital stock, subject to any provisions of the Restated Articles of Incorporation.

DIVIDENDS IN SHARES OF CORPORATION

Section 2a. The corporation may declare dividends payable in shares of the corporation only as follows:

- (1) Out of earned surplus;
- (2) Out of paid-in surplus;

(3) No dividend payable in shares of any class shall be paid to shareholders of any other class unless the Restated Articles of Incorporation so provide or such payment is authorized by the vote or written consent of the holders of two-thirds of the shares of the class in which the payment is to be made.

ARTICLE XII.

PURCHASE OR REDEMPTION OF SHARES OF OWN STOCK

Section 1. The corporation may purchase or redeem shares of its own stock.

ARTICLE XIII. CORPORATE OBLIGATIONS

Section 1. The Board of Directors may from time to time and on terms and conditions as they prescribe authorize the issuance of mortgages, bonds, debentures, notes, obligation agreements and other evidence of indebtedness.

Section 2. Such evidence of indebtedness as authorized above shall be signed by the CEO, President or CFO and the Treasurer or Assistant Treasurer of the corporation and may be sealed with the seal of the corporation or facsimile thereof.

Section 3. The signatures of the officers of the corporation upon the evidence of indebtedness may be facsimiles if the certificate is countersigned by a transfer agent, or registered by a registrar, other than the corporation itself. In case any officer who has signed or whose facsimile's signature has been placed upon such evidence of indebtedness shall have ceased to be such officer before such indebtedness is issued, it may be issued by the corporation with the same effect as if he were such officer at the date of its issue.

Section 4. The CEO, President, CFO or Treasurer may direct a new evidence of indebtedness to be issued in place of one heretofore issued by the corporation alleged to have been lost or

destroyed. When authorizing such issue of a new evidence of indebtedness, the CEO, President, CFO or Treasurer in his discretion and as a condition precedent to the issuance thereof, may prescribe such terms and conditions as is deemed expedient and may require a bond or such other indemnities as is deemed adequate to protect the corporation from any claim that may be made against it with respect to any such certificate alleged to have been lost or destroyed.

Section 5. Upon surrender to the corporation or the transfer agent of the corporation of evidence of indebtedness duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, and provided such evidence of indebtedness is transferable, a new evidence of indebtedness may be issued to the person entitled thereto and the old cancelled and the transfer recorded upon the books of the corporation.

Section 6. The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner to receive interest on the evidence of indebtedness and to hold liable for calls and assessments the person registered on its books as the owner of said evidence of indebtedness, except as otherwise provided by the laws of the State of Minnesota.

Section 7. The term "evidence of indebtedness" as used in Article XIII, Sections one (1) through six (6) includes mortgages, bonds, debentures, notes, obligation agreements and all and every other kind of indebtedness.

ARTICLE XIV.
RELATION OF DIRECTORS AND OFFICERS TO CORPORATION

Section 1. Directors may be removed from office only for "cause" as defined in and in accordance with the Restated Articles of Incorporation. Officers of the corporation may be removed from office with or without cause.

ARTICLE XV.
CHANGE OF REGISTERED OFFICE

Section 1. The corporation shall maintain a registered office in the State of Minnesota and designate a registered agent therein and in all states where the corporation is admitted to do business.

Section 2. The designation or change in the location of the registered office and the designation and change of a registered agent may be made by the Board of Directors, the CEO, President or

CFO providing that on or before the day that such change is to become effective, a certificate of such change and of the location and post office address of the new registered office or agent shall be filed with the applicable Secretary of State.

ARTICLE XVI.
CORPORATE BOOKS AND RECORDS

SHARE REGISTER

Section 1. The corporation shall keep within the United States a share register giving the names and addresses of the shareholders, the number and classes of shares held by each and the date on which the certificates were issued.

BOOKS OF ACCOUNT AND RECORDS

Section 2. The corporation shall keep appropriate books of account and records of proceedings of the shareholders, the Directors and all other accounts and record that are appropriate.

SEAL

Section 3. The corporate seal shall have inscribed thereon the name of the corporation and the words, "Corporate Seal, Minnesota." The seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any manner reproduced.

SHAREHOLDERS INFORMATION

Section 4. Upon written request by a shareholder, the corporation shall furnish to him a statement of profit and loss for its last annual accounting period and last available quarter.

ARTICLE XVII.
REIMBURSEMENT, INDEMNITY, NON-LIABILITY
OF DIRECTORS AND OFFICERS

See for the text the Certificate of Amendment of the 1983 Restated Articles of Incorporation of Flexsteel Industries, Inc. dated November 5, 1987 Exhibit A and Exhibit C.

ARTICLE XVIII.
AMENDMENTS

Section 1a. These Bylaws may be altered, modified, amended or repealed or new Bylaws may be adopted by the

shareholders in compliance with the Restated Articles of Incorporation which provide that such action shall only be taken by the affirmative vote of 2/3rd's of all the shares voting on this issue, of the aggregate voting power of the outstanding Common Shares and the outstanding \$50.00 Par Cumulative Preferred Shares and the outstanding \$1.00 Par Value Preferred Shares, voting together and for this purpose considered one class at any regular or special meeting of the shareholders.

Section 1b. The Directors shall have the right to alter, amend, repeal or make new Bylaws only as provided in the Restated Articles of Incorporation which provide that the Bylaws may be amended by the Directors by a majority vote of the Directors then in office.

FLEXSTEEL INDUSTRIES, INC.
FORM 10-Q FINANCIAL DATA SCHEDULE

3-MOS	
JUN-30-1999	DEC-31-1998
	5,554,715
	10,374,470
	28,824,745
	2,460,000
	29,332,585
	75,122,650
	78,051,682
	53,497,753
	107,218,953
23,207,493	
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0	0
	6,827,017
	74,106,818
107,218,953	
	62,575,129
	62,876,947
	48,435,226
	59,325,417
	10,890,191
	0
	79,782
	3,471,748
	1,275,000
2,196,748	
	0
	0
	0
	2,196,748
	0.32
	0.32