

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 March 31, 1999

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  No .

Common Stock - \$1.00 Par Value  
 Shares Outstanding as of March 31, 1999

6,705,443  
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FLEXSTEEL INDUSTRIES, INC.  
 BALANCE SHEETS (UNAUDITED)

	March 31, 1999	June 30, 1998
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ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents .....	\$ 4,795,074	\$ 5,464,261
Investments .....	8,931,214	9,877,784
Trade receivables - less allowance for doubtful accounts:		
March 31, 1999, \$2,580,000;		
June 30, 1998, \$2,198,000 .....	33,544,594	28,722,752
Inventories .....	27,339,112	26,607,296
Deferred income taxes .....	2,785,000	2,785,000
Other .....	448,429	632,730
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Total current assets .....	77,843,423	74,089,823
PROPERTY, PLANT, AND EQUIPMENT		

at cost less accumulated depreciation:		
March 31, 1999, \$52,549,174;		
June 30, 1998, \$51,333,347 .....	25,402,837	23,095,589
OTHER ASSETS .....	7,912,129	7,487,729
	-----	-----
TOTAL .....	\$ 111,158,389	\$ 104,673,141
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable - trade .....	\$ 5,937,917	5,792,708
Accrued liabilities:		
Payroll and related items .....	6,600,080	5,448,032
Insurance .....	5,405,301	5,834,895
Other accruals .....	7,053,583	4,515,177
Industrial revenue bonds payable .....	1,625,000	1,950,000
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Total current liabilities .....	26,621,881	23,540,812
DEFERRED COMPENSATION .....	3,031,025	3,052,525
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Total liabilities .....	29,652,906	26,593,337
	-----	-----
SHAREHOLDERS' EQUITY:		
Common Stock - \$1 par value; authorized 15,000,000 shares;		
issued March 31, 1999, 6,705,443 shares;		
issued June 30, 1998, 6,794,730 shares .....	6,705,443	6,794,730
Retained earnings .....	73,750,962	70,450,282
Unrealized investment gain .....	1,049,078	834,792
	-----	-----
Total shareholders' equity .....	81,505,483	78,079,804
	-----	-----
TOTAL .....	\$ 111,158,389	\$ 104,673,141
	=====	=====

See accompanying Notes to Financial Statements.

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

STATEMENTS OF INCOME

	Three Months Ended March 31,		Nine Months Ended March 31,	
	1999	1998	1999	1998
NET SALES .....	\$ 68,614,563	\$ 62,089,586	\$ 191,243,073	\$ 173,508,959
COST OF GOODS SOLD .....	52,871,455	48,316,681	148,209,748	136,497,076
GROSS MARGIN .....	15,743,108	13,772,905	43,033,325	37,011,883
SELLING, GENERAL AND ADMINISTRATIVE .....	11,546,542	10,676,560	32,976,703	30,577,483
OPERATING INCOME .....	4,196,566	3,096,345	10,056,622	6,434,400
OTHER:				
Interest and other income .....	319,922	294,107	896,428	1,634,516
Interest and other expense .....	71,835	84,382	231,746	257,941
Total .....	248,087	209,725	664,682	1,376,575
INCOME BEFORE INCOME TAXES .....	4,444,653	3,306,070	10,721,304	7,810,975
PROVISION FOR INCOME TAXES .....	1,615,000	1,200,000	3,900,000	2,575,000
NET INCOME .....	\$ 2,829,653	\$ 2,106,070	\$ 6,821,304	\$ 5,235,975
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:				
BASIC .....	6,775,826	6,958,932	6,813,228	6,957,823
DILUTED .....	6,856,625	7,035,406	6,885,472	7,024,040
EARNINGS PER SHARE OF COMMON STOCK:				
BASIC .....	\$ 0.42	\$ 0.30	\$ 1.00	\$ 0.75
DILUTED .....	\$ 0.41	\$ 0.30	\$ 0.99	\$ 0.75

STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ending March 31,		Nine Months Ending March 31,	
	1999	1998	1999	1998
NET INCOME .....	\$ 2,829,653	\$ 2,106,070	6,821,304	5,235,975
OTHER COMPREHENSIVE INCOME BEFORE TAX:				
Unrealized gains on securities arising during period .....	49,800	361,097	286,919	779,597
Less: reclassification adjustment for gains (losses) included in net income .....	45,000	(35,026)	49,844	(130,026)
Other comprehensive income, before tax .....	94,800	326,071	336,763	649,571
INCOME TAX BENEFIT (EXPENSE):				
Income tax expense related to securities gains arising during period .....	(17,928)	(126,384)	(103,291)	(272,859)
Income tax benefit (expense) related to securities reclassification adjustment .....	(16,200)	12,259	(17,944)	45,509
Income tax expense related to other comprehensive income .....	(34,128)	(114,125)	(121,235)	(227,350)

OTHER COMPREHENSIVE				
INCOME, NET OF TAX .....	60,672	211,946	215,528	422,221
COMPREHENSIVE INCOME .....	\$ 2,890,325	\$ 2,318,016	7,036,832	5,658,196

See accompanying Notes to Financial Statements.

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

	Nine Months Ended March 31,	
	1999	1998
<b>OPERATING ACTIVITIES:</b>		
Net Income .....	\$ 6,821,304	\$ 5,235,975
Adjustments to reconcile net income to net cash provided by operating activities .....	1,527,280	2,398,176
Net cash provided by operating activities .....	8,348,584	7,634,151
<b>INVESTING ACTIVITIES:</b>		
Purchases of investments .....	(3,618,759)	(4,888,695)
Proceeds from sales of investments .....	4,779,615	856,155
Proceeds from sales of capital assets .....	61,128	178,137
Capital expenditures .....	(6,294,669)	(2,184,032)
Net cash used in investing activities .....	(5,072,685)	(6,038,435)
<b>FINANCING ACTIVITIES:</b>		
Repayment of long-term debt .....	(325,000)	(35,000)
Payment of dividends .....	(2,459,832)	(2,503,818)
Proceeds from issuance of common stock .....	565,602	470,577
Repurchase of common stock .....	(1,725,856)	(38,250)
Net cash used in financing activities .....	(3,945,086)	(2,106,491)
Decrease in cash and cash equivalents .....	(669,187)	(591,775)
Cash and cash equivalents at beginning of year .....	5,464,261	4,445,327
Cash and cash equivalents at end of period .....	\$ 4,795,074	\$ 3,934,552
	=====	=====
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the period for		
Interest .....	\$ 59,000	\$ 70,000
Income taxes .....	\$ 4,110,000	\$ 3,185,000

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 nine month period ended March 31, 1999 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:

	March 31, 1999	June 30, 1998
	-----	-----
Raw materials .....	\$ 13,465,485	\$ 13,538,911
Work in process and finished parts .....	6,957,320	7,227,558
Finished goods .....	6,916,307	5,840,827
	-----	-----
Total .....	\$ 27,339,112	\$ 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 March 31,		Nine Months Ending March 31,	
	1999	1998	1999	1998
	-----	-----	-----	-----
<b>Basic Earnings Per Share:</b>				
Income available to common shareholders .....	\$ 2,829,653	\$ 2,106,070	\$ 6,821,304	\$ 5,235,975
Weighted average shares outstanding .....	6,775,826	6,958,932	6,813,228	6,957,823
	-----	-----	-----	-----
Earnings Per Share - Basic .....	\$ 0.42	\$ 0.30	\$ 1.00	\$ 0.75
	=====	=====	=====	=====
<b>Diluted Earnings Per Share:</b>				
Income available to common shareholders .....	\$ 2,829,653	\$ 2,106,070	\$ 6,821,304	\$ 5,235,975
Weighted average shares outstanding .....	6,775,826	6,958,932	6,813,228	6,957,823
Dilutive shares issuable in connection with stock option plans .....	513,445	425,295	478,628	397,037
Less shares purchasable with proceeds .....	(432,646)	(348,821)	(406,384)	(330,820)
	-----	-----	-----	-----
Total Shares .....	6,856,625	7,035,406	6,885,472	7,024,040
	=====	=====	=====	=====
Earnings Per Share - Diluted .....	\$ 0.41	\$ 0.30	\$ 0.99	\$ 0.75
	=====	=====	=====	=====

4. RECLASSIFICATIONS - certain prior year amounts have been reclassified to conform to the 1999 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 STATEMENT OF INCOME

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 third quarters and nine month ended March 31, 1999 and 1998. Amounts presented are percentages of the Company's net sales.

	Third Quarter Ended March 31,		Nine Month Ending March 31,	
	1999	1998	1999	1998
Net Sales .....	100.0%	100.0%	100.0%	100.0%
Cost of goods sold .....	77.1%	77.8%	77.5%	78.7%
Gross margin .....	22.9%	22.2%	22.5%	21.3%
Selling, general & administrative expense .....	16.8%	17.2%	17.2%	17.6%
Operating income .....	6.1%	5.0%	5.3%	3.7%
Other income, net .....	0.4%	0.3%	0.3%	0.8%
Income before income taxes .....	6.5%	5.3%	5.6%	4.5%
Income tax expense .....	2.4%	1.9%	2.0%	1.5%
Net income .....	4.1%	3.4%	3.6%	3.0%

RESULTS OF OPERATIONS FOR THE QUARTER - Net sales for the quarter ended March 31, 1999 increased by \$6,525,000 or 10.5% compared to the prior year quarter. Residential sales volume increased \$3,627,000 or 9.8%. Recreational vehicle seating sales increased \$3,540,000 or 18.2%. Commercial seating volume decreased \$642,000 or 11.4%.

Gross margin increased \$1,970,203 to \$15,743,108 or 22.9% of net sales, in the current year, from \$13,772,905 or 22.2% 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 net sales were 16.8% and 17.2% for the current year and prior year, respectively. The cost percentage decrease was due to absorption of fixed costs.

The above factors resulted in current quarter net income of \$2,829,653 or \$0.41 per share (diluted) compared to \$2,106,070 or \$0.30 per share (diluted) in the prior year, a net increase of \$723,583 or \$0.11 per share.

RESULTS OF OPERATIONS FOR THE LAST NINE MONTHS - Net sales for the nine-months ended March 31, 1999 increased by \$17,734,000 or 10.2% compared to the prior year nine-month period. Residential sales volume increased \$9,960,000 or 9.7%. Recreational vehicle seating sales increased \$6,978,000 or 12.7%. Commercial seating volume increased \$796,000 or 5.0%.

Gross margin increased \$6,021,442 to \$43,033,325 or 22.5% of net sales, in the current year, from \$37,011,883 or 21.3% 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 net sales were 17.2% and 17.6% for the current year and prior year, respectively. The cost percentage decrease was due to absorption of fixed costs.

The nine months ended March 31, 1998 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 net income of \$6,821,304 or \$0.99 per share (diluted) compared to \$5,235,975 or \$0.75 per share (diluted) in the prior year, a net increase of \$1,585,329 or \$0.24 per share. Excluding the life insurance proceeds reported in the prior year, net earnings for the nine-months ended March 31, 1999, improved \$0.34 per share (diluted) or 52% over the prior year nine-month period.

#### Liquidity and Capital Resources:

Working capital at March 31, 1999 is \$51,222,000 which includes cash, cash equivalents and investments of \$13,726,000. Working capital increased by \$673,000 from the June 30, 1998 amount. Net cash provided by operating activities was \$8,349,000 during the first nine months of fiscal year 1999 versus \$7,634,000 in the first nine months of fiscal year 1998.

Capital expenditures were \$6,295,000 and \$2,184,000 during the first nine 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 three months approximately \$2,700,000 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 approved 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 purchases, from time to time, in the open market as the Company deems appropriate. Under this authorization, 138,850 shares of common stock have been repurchased to date.

Year 2000 Issue - The Company has been modifying its computer information systems relating to the year 2000 and beyond. The Company has also reviewed its computer-dependent manufacturing activities and 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 our expectation that operations must continue without interruption after 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 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 6. Exhibits and Reports on Form 8-K

The registrant filed on March 23, 1999, a report on Form 8-K which reported that Lynn J. Davis was appointed to the registrant's Board of Directors.

Power of Attorney of Marvin M. Stern attached as Exhibit A hereto.

FLEXSTEEL INDUSTRIES, INC.

Date: May 7, 1999

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By: /S/ R.J. Klosterman

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

Date: 03/07/99

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Securities and Exchange Commission  
Filing Desk/Stop 1-4  
450 Fifth Street Northwest  
Washington, DC 20549

National Association of Security Dealers, Inc.  
NASDAQ Division  
1735 K Street Northwest  
Washington, DC 20006

RE: Flexsteel Industries, Inc.  
SEC File No. 0-5151  
Power of Attorney to file Forms 4 and 5

POWER OF ATTORNEY

I, Marvin M. Stern, do hereby apoint effective immediately R.J. Klosterman, in his capacity as Vice President of Finance of Flexsteel Industries, Inc., attorney in fact for me and in my name and on my behalf to do and execute all or any of the following acts, deeds and things, as fully as I might or could do if personally present or otherwise, namely:

To execute for me all or any Forms 4 or Forms 5 which forms are and may be described from time to time in the Securities Exchange Act of 1934 involving ownership in stock of Flexsteel Industries, Inc.

This power of attorney shall continue until notice is given by myself of revocation. This power of attorney grants rights but does not impose any duty on the power holder including any duty of inquiry. This power of attorney is durable.

Very truly yours,

Date: 03/07/99

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/S/ Marvin M. Stern

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/S/ Eileen Stern

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Witness

/S/ Peter Meltzer

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Witness

3-MOS  
JUN-30-1999  
MAR-31-1999  
4,795,074  
8,931,214  
36,124,594  
2,580,000  
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