SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

[ü] **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 [No Fee Required]**
For the quarterly period ended March 31, 2004
or
[ ] **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 [No Fee Required]**
For the transition period from to
Commission file number 0-5151

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 563 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 ___.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes _X_ No ___.

Common Stock – $1.00 Par Value
Shares Outstanding as of March 31, 2004 6,487,171

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	March 31, 2004	June 30, 2003
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,372,648	$ 12,811,385
Investments	1,268,685	9,531,913
Trade receivables – less allowance for doubtful accounts:		
March 31, 2004, $3,550,000;		
June 30, 2003, $2,110,000	44,157,032	29,612,278
Inventories	60,733,530	32,473,287
Deferred income taxes	5,490,000	4,070,000
Other	1,809,105	1,323,426
Total current assets	115,831,000	89,822,289
PROPERTY, PLANT, AND EQUIPMENT		
At cost less accumulated depreciation:		
March 31, 2004, $67,834,464;		
June 30, 2003, $65,912,760	31,131,188	20,377,797
DEFERRED INCOME TAXES	1,230,000	1,560,000
OTHER ASSETS	10,324,118	8,940,196
TOTAL	$ 158,516,306	$ 120,700,282
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable – trade	$ 8,577,311	$ 2,747,226
Current portion of long-term debt	1,000,008	
Accrued liabilities:		
Payroll and related items	10,079,499	7,565,256
Insurance	6,120,739	6,373,626
Restructuring		710,784
Other	7,277,125	4,759,838
Total current liabilities	33,054,682	22,156,730

LONG-TERM LIABILITIES:		
Long-term debt, less current portion	19,239,042	
Accrued pension costs	836,553	
Deferred compensation	5,086,828	4,790,225
Other long-term liabilities	600,619	
Total long-term liabilities	25,763,042	4,790,225
Total liabilities	58,817,724	26,946,955
SHAREHOLDERS' EQUITY:		
Cumulative preferred stock – $50 par value: authorized 60,000 shares: outstanding – none		
Undesignated (subordinated) stock – $1 par value: authorized 700,000 shares: outstanding – none		
Common stock – $1 par value; authorized 15,000,000 shares; outstanding March 31, 2004, 6,487,171 shares; outstanding June 30, 2003, 6,294,639 shares	6,487,171	6,294,639
Additional paid-in capital	2,054,334	1,353,639
Retained earnings	90,686,316	85,787,823
Accumulated other comprehensive income	470,761	317,226
Total shareholders' equity	99,698,582	93,753,327
TOTAL	$ 158,516,306	$ 120,700,282

See accompanying Notes to Consolidated Financial Statements (Unaudited).

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2004	**2003**	**2004**	**2003**
NET SALES	$ 106,964,330	$ 73,461,304	$ 292,923,464	$ 217,060,741
COST OF GOODS SOLD	(85,769,751)	(58,007,914)	(231,672,594)	(168,949,503)
GROSS MARGIN	21,194,579	15,453,390	61,250,870	48,111,238
SELLING, GENERAL AND ADMINISTRATIVE	(16,990,730)	(13,182,685)	(49,319,065)	(39,867,515)
GAIN ON SALE OF LAND				403,065
OPERATING INCOME	4,203,849	2,270,705	11,931,805	8,646,788
OTHER:				
Interest and other income	199,697	265,467	723,202	872,535
Interest expense	(214,583)	(95,187)	(384,729)	(101,235)
Total	(14,886)	170,280	338,473	771,300
INCOME BEFORE INCOME TAXES	4,188,963	2,440,985	12,270,278	9,418,088
PROVISION FOR INCOME TAXES	(1,650,000)	(1,020,000)	(4,850,000)	(3,750,000)
NET INCOME	$ 2,538,963	$ 1,420,985	$ 7,420,278	$ 5,668,088
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:				
BASIC	6,484,444	6,275,729	6,423,214	6,245,384
DILUTED	6,565,220	6,394,339	6,505,645	6,358,686
EARNINGS PER SHARE OF COMMON STOCK:				
BASIC	$ 0.39	$ 0.23	$ 1.16	$ 0.91

DILUTED	$ 0.39	$ 0.22	$ 1.14	$ 0.89

See accompanying Notes to Consolidated Financial Statements (Unaudited).

FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW (UNAUDITED)

	Nine Months Ended March 31,	
	2004	2003
OPERATING ACTIVITIES:		
Net income	$ 7,420,278	$ 5,668,088
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,157,328	3,593,532
Restructuring charge reversal	190,996	45,207
Loss (gain) on disposition of capital assets	167,769	(414,693)
Changes in operating assets and liabilities, net of acquisition:		
Trade receivables	(2,333,714)	2,270,733
Inventories	(1,115,267)	(1,057,673)
Other current assets	1,792,875	(1,094,614)
Other assets	(162,288)	(152,253)
Accounts payable – trade	4,329,546	(97,926)
Accrued liabilities	(3,001,359)	255,093
Accrued pension costs	(16,200)	
Deferred compensation	296,603	213,293
Deferred income taxes	799,000	(30,000)
Net cash provided by operating activities	12,525,567	9,198,787
INVESTING ACTIVITIES:		
Purchases of investments	(4,101,262)	(18,791,159)
Proceeds from sales of investments	11,813,309	22,247,544
Payments received from customers on notes receivable	350,371	328,987
Proceeds from sales of capital assets	120,539	624,171
Capital expenditures	(5,369,956)	(3,996,582)
Acquisition of DMI Furniture, Inc., net of cash acquired	(19,322,174)	
Net cash provided by (used in) investing activities	(16,509,173)	412,961
FINANCING ACTIVITIES:		
Payments on bank borrowings	(15,299,564)	(650,000)
Proceeds from bank borrowings	9,992,003	
Dividends paid	(1,678,291)	(2,430,983)
Derivative and hedging activities	(23,800)	
Proceeds from issuance of common stock	554,521	407,930
Net cash used in financing activities	(6,455,131)	(2,673,053)

Increase (decrease) in cash and cash equivalents	(10,438,737)	6,938,695
Cash and cash equivalents at beginning of period	12,811,385	5,375,683
Cash and cash equivalents at end of period	$ 2,372,648	$ 12,314,378

See accompanying Notes to Consolidated Financial Statements (Unaudited).

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

1. The consolidated financial statements included herein have been prepared by Flexsteel Industries, Inc. (the Company or Flexsteel), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The information furnished in the consolidated financial statements includes normal recurring adjustments and reflects all adjustments, which are, in the opinion of management, necessary for a fair presentation of such consolidated financial statements. Operating results for the nine-month period ended March 31, 2004, are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2004. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements for the year ended June 30, 2003, and the notes thereto, included in Flexsteel's Annual Report on Form 10-K as filed with the SEC and the consolidated financial statements of DMI Furniture, Inc. for the year ended August 30, 2003, and the notes thereto, included in the Company's Amendment No. 2 to Current Report on Form 8-K/A filed with the SEC on November 13, 2003.

DESCRIPTION OF BUSINESS – The Company is one of the oldest and largest manufacturers and marketers of residential, recreational vehicle, hospitality and healthcare upholstered and wooden furniture products in the country. The Company's furniture products include a broad line of quality upholstered and wooden furniture for residential, recreational vehicle and commercial use. Furniture products include sofas, love seats, chairs, reclining and rocker-reclining chairs, swivel rockers, sofa beds, convertible bedding units, bedroom, dining room, occasional tables, and home and commercial office furniture. The Company has three wholly owned subsidiaries: (1) Desert Dreams, Inc. owns and leases a commercial building to an unrelated entity, (2) Four Seasons, Inc. operated retail furniture stores until their closure in November 2003, and (3) DMI Furniture, Inc. (DMI), acquired effective September 18, 2003, 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. DMI's divisions are WYNWOOD, Homestyles and DMI Commercial Office Furniture. All significant intercompany accounts and transactions have been eliminated.

RECLASSIFICATIONS – Certain prior period amounts have been reclassified to conform to the fiscal 2004 presentation. These reclassifications had no impact on net income or shareholders' equity as previously reported.

2. ACQUISITION – On September 18, 2003, the Company effectively acquired 100% of the outstanding common stock of DMI Furniture, Inc. for $3.30 per share in cash. The results of DMI's operations have been included in the consolidated financial statements of the Company since that date. As a result of the acquisition, DMI's distribution, product lines, and global sourcing infrastructure are expected to enhance the Company's focus on expanding its product offerings. The financial strength of the Company is also expected to provide the resources for continued DMI growth and result in accretion to the earnings of the Company.

The aggregate purchase price was $54.9 million. The purchase price consisted of $16.7 million in cash paid to the shareholders of DMI, $2.8 million in acquisition costs paid by the Company, and the assumption of all DMI liabilities totaling $35.4 million, including $25.5 million of long-term debt.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

	September 18, 2003
Current assets	$ 44,599
Property, plant, and equipment	9,710
Intangible asset – customer relationships	596
Other assets	40

Total assets acquired	54,945
Current liabilities	(8,912)
Long-term debt	(24,508)
Other liabilities	(2,029)
Total liabilities assumed	(35,449)
Net assets acquired	$ 19,496

The customer relationships intangible asset will be amortized on an accelerated basis over an expected useful life of five years. None of the amortization of the customer relationships intangible asset is expected to be deductible for income tax purposes.

The unaudited pro forma financial information below assumes that DMI had been acquired at July 1, 2002 and includes the effect of amortization of the customer relationships intangible asset, additional depreciation expense, additional interest expense, reduction in interest income, and the related income tax effects. This pro forma financial information is presented for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved had the acquisition taken place at the beginning of fiscal 2003. Pro forma information follows (in thousands, except per share amounts):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2004	**2003**	**2004**	**2003**
Net sales	$ 106,964	$ 103,476	$ 313,916	$ 273,070
Net income	2,539	1,811	7,790	6,299
Earnings per share of common stock:				
Basic	0.39	0.29	1.21	1.01
Diluted	0.39	0.28	1.20	0.99

3. INVENTORIES – Are stated at the lower of cost or market. Raw steel, lumber and wood frame parts are valued on the last-in, first-out (LIFO) method. Other inventories are valued on the first-in, first-out (FIFO) method. A comparison of inventories is as follows (in thousands):

	March 31, 2004	June 30, 2003
Raw materials	$ 18,058	$ 15,992
Work in process and finished parts	8,172	8,865
Finished goods	34,504	7,616
Total	$ 60,734	$ 32,473

4. ACCRUED WARRANTY COSTS – The Company estimates the amount of warranty claims on sold product that may be incurred based on current and historical data. The actual warranty expense could differ from the estimates made by the Company based on product performance. The following table presents the changes in the Company’s product warranty liability for the nine months ended March 31, 2004 (in thousands):

Accrued warranty costs at June 30, 2003	$ 535
Payments made for warranty costs	(2,316)
Estimated liability assumed in DMI acquisition	675
Accrual for product warranty	2,305
Accrued warranty costs at March 31, 2004	$ 1,199

5. DERIVATIVE & HEDGING ACTIVITIES – In connection with the DMI acquisition, the Company assumed DMI’s interest rate swaps utilized to hedge against adverse changes in interest rates relative to its variable rate debt. The notional principal amounts of the outstanding interest rate swaps totaled $15.8 million with a weighted average fixed rate of 4.0% at March 31, 2004. The interest rate swaps are not utilized to take speculative positions. The Board of Directors established the Company’s policies with regards to activities involving derivative instruments. Management, along with the Board of Directors, periodically reviews those policies, along with the actual derivative related results. The Company recorded the fair market value of its interest rate swaps as cash flow hedges on its balance sheet and has marked them to fair value through other comprehensive income. The fair values of the swaps were a liability of $0.6 million as of March 31, 2004 and are reflected as other long-term liabilities on the accompanying balance sheet.

6. RESTRUCTURING – The Company established an accrual for restructuring liabilities in fiscal 2002 for estimated facility closing costs related to the closure of retail stores. The accrual was for lease commitments with no future benefit to the Company and were paid during the quarter ended March 31, 2004.

The following table summarizes the activity related to the restructuring charges during the nine months ended March 31, 2004 (in thousands):

	Facility Closing Costs
Accrued restructuring costs at June 30, 2003	$ 711
Recovery for the period ended March 31, 2004	(191)
Utilization for the period ended March 31, 2004	(520)
Accrued restructuring costs at March 31, 2004	$ - 0 -

7. LONG-TERM DEBT – At March 31, 2004, consisted of the following (in thousands):

Economic development revenue bonds; payable May 2004; weekly adjustable coupon rate; secured by letter of credit	$ 2,020
$7.0 million reducing revolving loan with monthly principal installments of $83,334; through March 1, 2006; interest rate at prime +0% or LIBOR+1%; unsecured	2,846
$19.0 million revolving note; expires March 1, 2006; interest rate at prime +0% or LIBOR+1%; unsecured	15,373
Total	20,239
Less portion due within one year	1,000
Long-term debt, less current portion	$ 19,239

In November 2003, the Company amended its existing credit facility to restructure its revolving loan and note to the amounts and interest rates shown in the table above. In March 2004, the Company entered into a $10.0 million unsecured revolving line of credit with a variable interest rate based on prime +1.0% or LIBOR+0.95%. As of March 31, 2004, there were no borrowings outstanding on this facility. All outstanding amounts under the line are due September 30, 2004.

The Company's debt agreements contain restrictive covenants that require the Company, among other things, to maintain an interest coverage ratio, leverage ratio, consolidated net worth ratio, and limitations on capital expenditures and disposals, all as defined in the financing agreements. At March 31, 2004, the Company was in compliance with all financial covenants contained in the debt agreements.

8. PENSION PLANS – In connection with the DMI acquisition, the Company assumed DMI's defined benefit pension plan and defined contribution retirement plans. The defined benefit pension plan covers substantially all hourly employees of DMI. Retirement benefits are based on years of credited service multiplied by a dollar amount negotiated under collective bargaining agreements. The Company's policy is to fund normal costs and amortization of prior service costs at a level that is equal to or greater than the minimum required under the Employee Retirement Income Security Act of 1974 (ERISA). As of March 31, 2004, the accrued benefit liability related to the defined benefit pension plan recognized on the Company's consolidated balance sheet was $0.8 million.

9. STOCK OPTIONS – The Company has stock option plans for key employees and directors that provide for the granting of incentive and nonqualified stock options. Under the plans, options are granted at an exercise price equal to the fair market value of the underlying common stock at the date of grant, and may be exercisable for up to 10 years. All options are exercisable when granted. At March 31, 2004, 439,150 shares were available for future grants. The Company applies Accounting Principles Board (APB) Opinion No. 25 and related interpretations in accounting for its stock option plans, as permitted under Statement of Financial Accounting Standards (SFAS) No. 123 and SFAS No. 148. Accordingly, no compensation cost has been recognized for its stock option plans. Had the compensation cost for the Company's incentive stock option plans been determined based on the fair value at the grant dates for awards under those plans consistent with the fair-value methodology of SFAS No. 123 and SFAS No. 148, the Company's net income and earnings per share would have been reduced to the following pro forma amounts:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2004	2003	2004	2003
Net income, as reported	$ 2,538,963	$ 1,420,985	$ 7,420,278	$ 5,668,088
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects			(427,000)	(291,000)
Pro forma net income	$ 2,538,963	$ 1,420,985	$ 6,993,278	$ 5,377,088
Earnings per share:				
Basic – as reported	$ 0.39	$ 0.23	$ 1.16	$ 0.91

Basic – pro forma	0.39	0.23	1.09	0.86
Diluted – as reported	0.39	0.22	1.14	0.89
Diluted – pro forma	0.39	0.22	1.07	0.85

The fair value of each option grant is estimated on the date of grant using the Black-Sholes option-pricing model with the following weighted-average assumptions used for grants in fiscal 2004 and 2003, respectively; dividend yield of 2.7% and 3.3%; expected volatility of 25.9% and 24.8%; risk-free interest rates of 4.3% and 4.1%; and an expected life of 10 years on all options. The Company does not anticipate that additional options will be granted during fiscal 2004.

10. EARNINGS PER SHARE – Basic earnings per share of common stock is based on the weighted average number of common shares outstanding during each year. Diluted earnings per share of common stock takes into effect the dilutive effect of potential common shares outstanding. The Company's only potential common shares outstanding are stock options, which resulted in a dilutive effect of 80,776 shares and 118,610 shares in the quarters ended and 82,431 and 113,302 shares in the nine months ended March 31, 2004 and 2003, respectively. The Company calculates the dilutive effect of outstanding options using the treasury stock method. Options to purchase 1,432 and 163,050 shares of common stock were outstanding during the three and nine months ended March 31, 2004 and 2003, respectively, but were not included in the computation of diluted earnings per share as their exercise prices were greater than the average market price of the common shares.

11. COMPREHENSIVE INCOME – In accordance with the provisions of SFAS No. 130, the Company has elected to report comprehensive income in its Consolidated Statement of Changes in Shareholders' Equity. For the nine months ended March 31, 2004 and 2003, other comprehensive income (loss), net of tax, was approximately $154,000 and ($336,000), respectively.

12. SUPPLEMENTAL CASH FLOW INFORMATION

Non-Cash Investing Activities – In September 2003, the Company purchased all of the common stock of DMI for $19.5 million (including acquisition costs of $2.8 million). In conjunction with the acquisition, liabilities were assumed as follows (in thousands):

Fair value of assets acquired	$ 54,945
Cash paid for common stock	19,496
Liabilities assumed	$ 35,449

Supplemental Information – Cash paid during the period for (in thousands):

	Nine Months Ended March 31,	
	2004	**2003**
Interest	$ 959	$ 102
Income taxes	$ 4,585	$ 6,175

13. SEGMENTS – The Company operates in two reportable operating segments: (1) Furniture Products (formerly known as Seating Products) and (2) Retail Stores. The Furniture Products segment involves the distribution of manufactured and imported products consisting of a broad line of upholstered and wooden furniture for residential, recreational vehicle, and commercial markets. The Company's products are sold primarily throughout the United States by the Company's internal sales force and various independent representatives. The Retail Stores segment involved the operation of retail furniture stores that offered the Company's residential products for sale directly to consumers. In November 2003, the retail stores were closed. No single customer accounted for more than 10% of sales in either of the Company's two segments.

Segment operating income is based on profit or loss from operations before interest income and expense, other income and income taxes.

Segment information for the three-month periods ended March 31 was as follows (in thousands):

	March 31, 2004			**March 31, 2003**		
	Furniture Products	**Retail Stores**	**Total**	**Furniture Products**	**Retail Stores**	**Total**
Net sales	$106,964,330	$	$106,964,330	$ 72,321,954	$ 1,139,350	$ 73,461,304
Operating income (loss)	4,203,849		4,203,849	2,542,469	(271,764)	2,270,705
Depreciation and amortization	1,443,231		1,443,231	1,144,224	26,822	1,171,046
Capital expenditures	2,201,294		2,201,294	554,360		554,360

Segment information for the nine-month periods ended March 31 was as follows (in thousands):

	March 31, 2004			**March 31, 2003**		
	Furniture Products	**Retail Stores**	**Total**	**Furniture Products**	**Retail Stores**	**Total**

Net sales	$290,701,265	$ 2,222,199	$292,923,464	$212,915,918	$ 4,144,823	$217,060,741
Operating income (loss)	12,264,565	(332,760)	11,931,805	9,721,994	(1,075,206)	8,646,788
Depreciation and amortization	4,130,668	26,660	4,157,328	3,506,259	87,273	3,593,532
Capital expenditures	5,369,956		5,369,956	3,996,582		3,996,582
Assets	158,516,306		158,516,306	120,415,155	1,382,600	121,797,755

14. ACCOUNTING DEVELOPMENTS – In December 2003, the Financial Accounting Standards Board (FASB) issued a revised Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46R). FIN 46R addresses consolidation by business enterprises of variable interest entities and significantly changes the consolidation application of consolidation policies to variable interest entities and, thus improves comparability between enterprises engaged in similar activities when those activities are conducted through variable interest entities. The Company does not hold any variable interest entities.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 establishes standards on the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 was effective immediately for all financial instruments entered into or modified after May 31, 2003. For all other instruments, SFAS No. 150 was effective at the beginning of the first quarter of fiscal 2004. The adoption of SFAS No. 150 had no material impact on the Company's results of operations or financial position.

In April 2003, the FASB issued SFAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 was effective for certain contracts entered into or modified by the Company after June 30, 2003. The Company adopted SFAS No. 149 effective July 1, 2003 with no material impact on its results of operations or financial position.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

GENERAL:

The following analysis of the results of operations and financial condition of Flexsteel Industries, Inc. (the Company) should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this document.

CRITICAL ACCOUNTING POLICIES:

The discussion and analysis of the Company's consolidated financial statements and results of operations are based on consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America. Preparation of these consolidated financial statements requires the use of estimates and judgments that affect the reported results. Actual results may differ from these estimates under different assumptions or conditions.

Use of estimates – the Company uses estimates based on the best information available in recording transactions and balances resulting from business operations. Estimates are used for such items as collectability of trade accounts receivable, inventory valuation, depreciable lives of long-lived assets, self-insurance programs, restructuring costs, pension benefits, warranty, and revenue recognition.

Allowance for doubtful accounts – the Company establishes an allowance for doubtful accounts through review of open accounts, and historical collection and allowances amounts. The allowance for doubtful accounts is intended to reduce trade accounts receivable to the amount that reasonably approximates their fair value due to their short-term nature. The amount ultimately realized from trade accounts receivable may differ from the amount estimated in the financial statements based on collection experience and actual returns and allowances.

Inventories – the Company values inventory at the lower of cost or market. Raw steel, lumber and wood frame parts are valued on the last-in, first-out (LIFO) method. Other inventories are valued on the first-in, first-out (FIFO) method. Changes in the market conditions could require a write down of inventory.

Valuation of Long-Lived Assets – the Company periodically reviews the carrying value of long-lived assets and estimated depreciable or amortizable lives for continued appropriateness. This review is based upon projections of anticipated future cash flows and is performed whenever events or changes in circumstances indicate that asset carrying values may not be recoverable or that the estimated depreciable or amortizable lives may have changed. These evaluations could result in a change in estimated useful lives in future periods.

Self-insurance programs – the Company is self-insured for health care and most workers' compensation up to predetermined amounts above which third party insurance applies. The Company is contingently liable to insurance carriers under its comprehensive general, product, and vehicle liability policies, as well as some workers' compensation. Losses are accrued based upon the Company's estimates of the aggregate liability of claims incurred using certain actuarial assumptions followed in the insurance industry and based on Company experience. The actual claims experience could differ from the estimates made by the Company.

Restructuring – the Company established an accrual for restructuring liabilities in fiscal 2002 for facility closing costs. The accrual included inventory write-offs and lease commitments with no future benefit to the Company.

Pension benefits – the amounts recognized in the financial statements related to pension benefits under DMI's defined benefit pension plan are determined based on actuarial assumptions. A significant assumption used in determining DMI's net pension cost is the expected long-term rate of return on plan assets. Another significant estimate that affects DMI's pension cost is the discount rate used in the annual actuarial valuation of pension benefits. The discount rate represents the interest rate that is used to determine the present value of future cash flows required to settle the pension obligations. To the extent the assumed discount rate decreases, DMI would have to record additional expense.

Warranty – the Company estimates the amount of warranty claims on sold product that may be incurred based on current and historical data. The actual warranty expense could differ from the estimates made by the Company based on product performance.

Revenue recognition – is upon delivery of product to our customer. Our ordering process creates persuasive evidence of the sale arrangement and the sales amount is determined. The delivery of the goods to our customer confirms our reasonable assurance of collectibiltiy. Net sales consist of product sales and related delivery charge revenue, net of adjustments for returns and allowances. The actual amounts for returns and allowances could differ from the estimated amounts. Shipping and handling costs are included in cost of goods sold.

<u>Overview</u>

The following table has been prepared as an aid in understanding the Company's results of operations on a comparative basis for the three months and nine months ended March 31, 2004 and 2003. Amounts presented are percentages of the Company's net sales.

	Third Quarter Ended March 31,		**Nine Months Ended March 31,**	
	2004	**2003**	**2004**	**2003**
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	(80.2)	(79.0)	(79.1)	(77.8)
Gross margin	19.8	21.0	20.9	22.2
Selling, general and administrative	(15.9)	(17.9)	(16.8)	(18.4)
Gain on sale of land				0.2
Operating income	3.9	3.1	4.1	4.0
Other income, net	0.0	0.2	0.1	0.3
Income before income taxes	3.9	3.3	4.2	4.3
Income tax expense	(1.5)	(1.4)	(1.7)	(1.7)
Net income	2.4%	1.9%	2.5%	2.6%

The quarter ended March 31, 2004 was the second full quarter of combined operations following the acquisition of DMI in September 2003. The results were as anticipated. Historically, the pricing structure for DMI products has resulted in a lower gross margin than we have earned on Flexsteel products. However, DMI has incurred lower selling, general and administrative expenses as a percent of net sales than Flexsteel. We expect that these relationships will continue in future periods. We will continue to focus our attention on integrating the operations of Flexsteel and DMI, utilizing the capabilities available and to take advantage of new manufacturing and marketing opportunities.

The third quarter of fiscal 2004 was negatively impacted by increased costs for materials, especially steel and component parts that have steel content. We expect that our gross margin will continue to be impacted by these cost increases during the fourth quarter of fiscal 2004 and, to a lesser extent, into the first quarter of fiscal 2005. At that time, we expect our recently initiated selling price increases will become fully effective and help dampen the current gross margin pressure we are experiencing as a result of our higher material costs.

During November 2003, we restructured our existing credit agreement that was assumed in the acquisition of DMI, lowering the interest rate based on our strong consolidated financial position. During March 2004, we added an additional $10.0 million unsecured revolving line of credit to our financing availability to ensure that funds are available when and if needed for working capital purposes.

During November 2003, Four Seasons, Inc. closed the two remaining retail furniture stores. The final payments for lease obligations that were included in facility closing costs were paid during the quarter ended March 31, 2004. We expect no future expenses related to retail operations.

The Company continues to implement a "blended" strategy, offering customers fully manufactured, imported for final production and ready to deliver imported products. The Company believes that it best serves customers by offering products from each of these categories to assist customers in reaching specific consumers, price points and style. This blended focus on product categories will allow the Company to provide a wide range of options to satisfy customer requirements.

A petition filed by the American Furniture Manufacturers Committee of Legal Trade in October 2003 seeks antidumping tariffs on wooden bedroom furniture manufactured in the People's Republic of China. The U. S. Department of Commerce is investigating. The tariff amount, if any, may vary by manufacturer; accordingly the effect on our future operations is not clear.

Results of Operations for the Quarter Ended March 31, 2004 vs. 2003

Net sales for the quarter ended March 31, 2004 increased by $33.5 million or 45.6% compared to the prior year quarter. Residential sales volume increased $19.2 million (including $18.2 million from DMI) or 39.2%. Recreational vehicle sales increased $2.8 million or 14.5%. Commercial sales volume increased $11.5 million (including $9.7 million from DMI) or 219.0%. The increase in net sales reflects improved industry performance for vehicle and commercial furniture products in addition to DMI net sales.

Gross margin increased $5.7 million to $21.2 million or 19.8% of net sales in the current quarter, from $15.5 million or 21.0% in the prior year quarter. The lower percentage gross margin in the current period is due to a lower gross margin on $27.8 million net sales of DMI furniture products and the increased costs for materials, approximately 0.5% of net sales, especially steel and component parts that have steel content.

Selling, general and administrative expenses as a percentage of net sales were 15.9% and 17.9% for the current quarter and prior year quarter, respectively. The selling, general and administrative expense percentage decrease is due primarily to the lower costs associated with DMI operations and the reversal of $0.2 million of restructuring costs related to the closure of retail stores.

The above factors resulted in current fiscal quarter net income of $2.5 million or $0.39 per share compared to the prior year quarter of $1.4 million or $0.22 per share, an increase of $1.1 million or $0.17 per share, an increase of 78.7%.

All earnings per share amounts are on a diluted basis.

Results of Operations for the Nine Months Ended March 31, 2004 vs. 2003

Net sales for the nine months ended March 31, 2004 increased by $75.9 million or 34.9% compared to the prior year nine-month period. Residential sales volume increased $47.9 million (including $44.7 million from DMI) or 32.9%. Recreational vehicle sales increased $5.6 million or 10.0%. Commercial sales increased $22.3 million (including $18.3 million from DMI) or 150.5%. The increase in net sales reflects improved industry performance for recreational vehicle and commercial products in addition to DMI net sales.

Gross margin increased $13.1 million to $61.3 million or 20.9% of sales in the current period from $48.1 million or 22.2% of sales in the prior year period. The gross margin percentage in the current period reflects the lower gross margin on $63.0 million net sales of DMI furniture products and increased costs for raw materials, approximately 0.2% of net sales, especially steel and component parts that have steel content.

Selling, general and administrative expenses as a percentage of sales were 16.8% and 18.4% for the current year and prior year, respectively. The cost percentage decrease was primarily due to the addition of DMI operations with lower selling, general and administrative expense and the discontinuation of the Company’s retail operations during the second quarter of fiscal 2004.

During the first quarter of fiscal 2003, the Company sold land adjacent to the Lancaster, Pennsylvania factory at a net gain (after tax) of $0.2 million or $0.04 per share.

The above factors resulted in current fiscal year to date net income of $7.4 million or $1.14 per share compared to $5.7 million or $0.89 per share in the prior year period, an increase of $1.7 million or $0.25 per share from the prior year nine-month period.

All earnings per share amounts are on a diluted basis.

Liquidity and Capital Resources

Working capital at March 31, 2004 was $82.8 million, which includes cash, cash equivalents and investments of $3.6 million. Working capital increased by $15.1 million from the June 30, 2003 amount.

Cash, cash equivalents and investments decreased by $18.7 million during the nine-month period ended March 31, 2004. Net cash provided by operating activities was $12.5 million versus $9.2 million in the prior nine-month period. Cash, cash equivalents and investments have decreased from June 30, 2003 due to the purchase of DMI that required $19.3 million and the reduction of long-term debt of $5.3 million.

Capital expenditures were $5.4 million and $4.0 million during the first nine months of fiscal 2004 and 2003, respectively. The current fiscal year expenditures were incurred primarily for manufacturing machinery and equipment and the expansion of the Dublin, GA, facility. During the remainder of fiscal 2004, it is anticipated that approximately $1.1 million will be spent on manufacturing and delivery equipment. The funds for projected capital expenditures are expected to be provided by cash generated from operations and available lines of credit.

The Company has adequate cash, cash equivalents, short-term investment and credit arrangements to meet its operating and capital requirements. In the opinion of management, the Company’s liquidity and credit resources provide it with the ability to react to opportunities as they arise, the ability to pay quarterly dividends to its shareholders, and ensures that productive capital assets that enhance safety and improve operations are purchased as needed.

Item 3. Quantitative and Qualitative Information About Market Risk

General – Market risk represents the risk of changes in value of a financial instrument, derivative or non-derivative, caused by fluctuations in interest rates, foreign exchange rates and equity prices. As discussed below, management of the Company does not believe that changes in these factors could cause material fluctuations in the Company’s results of operations or cash flows. The ability to import furniture products can be adversely affected by political issues in the countries where suppliers are located and disruptions associated with shipping distances. Other risks related to furniture product importation include government imposition of regulations and/or quotas; duties and taxes on imports; and significant fluctuation in the value of the U. S. dollar against foreign currencies. Any of these factors could interrupt supply, increase costs and decrease earnings.

Foreign Currency Risk – During the nine-month periods ended March 31, 2004 and 2003, the Company did not have sales, purchases, or other expenses denominated in foreign currencies, nor did it have any active subsidiary located in foreign countries. As such, the Company is not exposed to market risk associated with currency exchange rates and prices.

Interest Rate Risk – The Company's primary market risk exposure with regard to financial instruments is changes in interest rates. At March 31, 2004, a hypothetical 100 basis point increase in short-term interest rates would decrease annual pre-tax earnings by approximately $40,000, assuming no change in the volume or composition of debt at March 31, 2004. The Company has effectively fixed the interest rates on approximately $15.8 million of its long-term debt through the use of interest rate swaps, and the above estimated earnings reduction takes these swaps into account. As of March 31, 2004, the fair value of these swaps is a liability of approximately $0.6 million and is included in other liabilities.

Tariffs – The Company has exposure to actions by governments, including tariffs. A petition filed by the American Furniture Manufacturers Committee of Legal Trade in October 2003 seeks antidumping tariffs on wooden bedroom furniture manufactured in the People's Republic of China. The amount of the tariffs, if any, is unknown and subject of ongoing investigation. The amount of product that may be subjected to tariffs is less than 10% of total net sales of the Company.

Item 4. Controls and Procedures

(a) *Evaluation of disclosure controls and procedures.* Based on their evaluation as of the filing date of this Quarterly Report on Form 10-Q, the Company's chief executive officer and chief financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended) were effective as of the date of such evaluation to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

(b) *Changes in internal controls.* There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, nor were there any significant deficiencies or material weaknesses in the Company's internal controls. As a result, no corrective actions were required or undertaken.

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 long-term goals or anticipated results 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 cyclical nature of the furniture industry, the effectiveness of new product introductions, the product mix of sales, the cost of raw materials, currency fluctuation, actions by governments including taxes and tariffs, the amount of sales generated and the profit margins thereon, competition, both foreign and domestic, changes in interest rates, credit exposure with customers, the ability to successfully integrate DMI into the Company's operations, 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 6. Exhibits and Reports on Form 8-K

The registrant filed the following reports on Form 8-K during the quarter ended March 31, 2004:

- Press Release dated February 4, 2004 - Flexsteel Announces Second Quarter and Year-to-Date Operating Results

Exhibits:

31.1 Certification by Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification by Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification by Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned officer thereunto duly authorized.

FLEXSTEEL INDUSTRIES, INC.

Date: April 23, 2004

By: */S/ R. J. Klosterman*

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

CERTIFICATION BY CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, K. Bruce Lauritsen, Chief Executive Officer of Flexsteel Industries, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Flexsteel Industries, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14(c) and 15d-14(c)) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

   c) disclosed in this quarterly report any changes in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that materially affected, or is likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: April 23, 2004

By: */S/ K. Bruce Lauritsen*

K. Bruce Lauritsen
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION BY CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Ronald J. Klosterman, Chief Financial Officer of Flexsteel Industries, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Flexsteel Industries, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14(c) and 15d-14(c)) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

   c) disclosed in this quarterly report any changes in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that materially affected, or is likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: April 23, 2004

By: */S/ Ronald J. Klosterman*

Ronald J. Klosterman
Chief Financial Officer

CERTIFICATION BY
CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Flexsteel Industries, Inc. (the Issuer) on Form 10-Q for the quarter ended March 31, 2004 as filed with the Securities and Exchange Commission (the Report), we, K. Bruce Lauritsen, Chief Executive Officer, and Ronald J. Klosterman, Chief Financial Officer, of the Issuer, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and;

(2) The information contained in the Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Issuer.

Date: April 23, 2004

By: */S/ K. Bruce Lauritsen*

K. Bruce Lauritsen
Chief Executive Officer

By: */S/ Ronald J. Klosterman*

Ronald J. Klosterman
Chief Financial Officer