UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

x Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended **June 30, 2007**
or
o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

Commission file number **0-5151**

FLEXSTEEL INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Minnesota	**42-0442319**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
P.O. Box 877, Dubuque, Iowa	**52004-0877**
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code:	**(563) 556-7730**

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

Title of each class	Name of each exchange on which registered
Common Stock, $1.00 Par Value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of Class)

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No x

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Act. (Check one):
Large accelerated filer o Accelerated filer x Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

The aggregate market value of the voting stock held by non-affiliates, computed by reference to the last sales price on December 29, 2006 (which was the last business day of the registrant's most recently completed second quarter) was $49,257,166.

Indicate the number of shares outstanding of each of the registrant's classes of Common Stock, as of the latest practicable date. 6,581,171 Common Shares ($1 par value) as of August 14, 2007.

DOCUMENTS INCORPORATED BY REFERENCE
In Part III, portions of the registrant's 2007 Proxy Statement to be filed with the Securities and Exchange Commission within 120 days of the Registrant's fiscal year end.

PART I

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 shareholders.

Statements, including those in this Annual Report on Form 10-K, 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 and distribution channels, the product mix of sales, pricing pressures, the cost of raw materials and fuel, foreign currency valuations, 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 and general economic conditions. For further information regarding these risks and uncertainties, see the "Risk Factors" section in Item 1A of this Annual Report on Form 10-K.

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.

Item 1. Business

General

Flexsteel Industries, Inc. and Subsidiaries (the "Company") was incorporated in 1929 and is one of the oldest and largest manufacturers, importers and marketers of residential, recreational vehicle and commercial upholstered and wooden furniture products in the country. Product offerings include a wide variety of upholstered and wood furniture such as sofas, loveseats, chairs, reclining and rocker-reclining chairs, swivel rockers, sofa beds, convertible bedding units, occasional tables, desks, dining tables and chairs and bedroom furniture. The Company's products are intended for use in home, office, motor home, travel trailer, yacht, health care and hotel applications. Featured as a basic component in most of the upholstered furniture is a unique drop-in seat spring. The Company distributes its products throughout the United States through the Company's sales force and various independent representatives to furniture dealers, department stores, recreational vehicle manufacturers, catalogs and hospitality and healthcare facilities. The Company's products are also sold to several national and regional chains, some of which sell on a private label basis.

The Company has one active wholly-owned subsidiary: DMI Furniture, Inc. ("DMI"), acquired effective September 17, 2003, which is a Louisville, Kentucky-based, manufacturer, importer and marketer of residential and commercial office furniture with manufacturing plants and warehouses in Indiana and manufacturing sources in Asia; DMI's divisions are WYNWOOD, Homestyles and DMI Commercial Office Furniture. The Company has two inactive wholly-owned subsidiaries: (1) Desert Dreams, Inc., which owned and leased a commercial building to an unrelated entity until it was sold on June 15, 2007 and (2) Four Seasons, Inc.

The Company operates in one reportable operating segment, furniture products. Our furniture products business 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 makes minimal export sales. No single customer accounted for more than 10% of net sales.

The Company's furniture products have three primary areas of application – residential, recreational vehicle and commercial. Set forth below is information for the past three fiscal years showing the Company's net sales attributable to each of the areas of application (in thousands):

	FOR THE YEARS ENDED JUNE 30,		
	2007	2006	2005
Residential	$ 259,710	$ 267,714	$ 261,900
Recreational Vehicle	66,165	71,981	78,838
Commercial	99,525	86,713	69,284
	$ 425,400	$ 426,408	$ 410,022

Manufacturing and Offshore Sourcing

There has been a significant change in recent years in the manner by which we acquire products to be introduced to the market. We have traditionally been a furniture manufacturer, however our blended strategy now combines offshore sourcing of finished and component parts with our manufactured finished products and component parts.

We operate nine manufacturing facilities that are located in Arkansas, California, Georgia, Indiana, Iowa, Mississippi, and Pennsylvania. These manufacturing operations are integral to our product offerings and distribution strategy by offering smaller and more frequent product runs of a wider product selection. We identify and eliminate manufacturing inefficiencies and adjust manufacturing schedules on a daily basis to meet customer requirements. We have established relationships with key suppliers to ensure prompt delivery of quality component parts. Our production includes the use of selected offshore component parts to enhance our product quality and value in the marketplace.

We integrate our manufactured products with finished products acquired from offshore suppliers who can meet our quality specification and scheduling requirements. We will continue to pursue and refine this blended strategy, offering customers manufactured goods, products manufactured utilizing imported component parts, 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 with varied price points, styles and product categories. This blended focus on products allows the Company to provide a wide range of options to satisfy customer requirements.

Competition

The furniture industry is highly competitive and includes a large number of domestic and foreign manufacturers, none of which dominates the market. The competition has significantly increased from foreign manufacturers in countries such as China, which have lower production costs. The markets in which we compete include a large number of relatively small manufacturers; however, certain competitors have substantially greater sales volumes and financial resources compared to us. Our products compete based on style, quality, price, delivery, service and durability. We believe that our manufacturing capabilities and facility locations, our commitment to our customers, our product quality and value and experienced production, marketing and management teams, now aided by offshore sourced finished product, are our competitive advantages.

Seasonality

The Company's business is not considered seasonal.

Foreign Operations

The Company makes minimal export sales. At June 30, 2007, the Company had approximately 110 employees located in Asia to inspect and coordinate the delivery of purchased products.

Customer Backlog

The approximate backlog of customer orders believed to be firm as of the end of the current fiscal year and the prior two fiscal years were as follows (in thousands):

June 30, 2007	June 30, 2006	June 30, 2005
$ 50,900	$ 50,600	$ 48,600

Raw Materials

The Company's manufactured furniture products utilize various types of wood, fabrics, leathers, upholstered filling material, high carbon spring steel, bar and wire stock, polyurethane and other raw materials in manufacturing furniture. While the Company purchases these materials from numerous outside suppliers, both domestic and offshore, it is not dependent upon any single source of supply. The costs of certain raw materials fluctuate, but all continue to be readily available.

Industry Factors

The Company has exposure to actions by governments, including tariffs. Tariffs are a possibility on any imported or exported products.

Government Regulations

The Company is subject to various local, state, and federal laws, regulations and agencies that affect businesses generally. These include regulations promulgated by federal and state environmental and health agencies, the federal Occupational Safety and Health Administration, and laws pertaining to the hiring, treatment, safety, and discharge of employees.

Environmental Matters

The Company is subject to environmental laws and regulations, particularly with respect to industrial waste. Compliance with these laws and regulations has not had a material impact on our capital expenditures, earnings, or competitive position.

Trademarks, Patents and Licenses

The Company owns the American and Canadian improvement patents to its Flexsteel seat spring, as well as patents on convertible beds and various other recreational vehicle seating products. The Company owns certain trademarks in connection with its furniture products, which trademarks are due to expire on dates ranging from 2007 to 2023. The Company does not consider its trademarks, patents and licenses material to its business.

It is not common in the furniture industry to obtain a patent for a furniture design. If a particular design of a furniture manufacturer is well accepted in the marketplace, it is common for other manufacturers to imitate the same design without recourse by the furniture manufacturer who initially introduced the design. Furniture products are designed by the Company's own design staff and through the services of independent designers. New models and designs of furniture, as well as new fabrics, are introduced continuously. In the last three fiscal years, these design activities involved the following expenditures (in thousands):

Fiscal Year Ended June 30,	Expenditures
2007	$3,270
2006	$2,990
2005	$2,910

Employees

The Company had approximately 2,250 employees as of June 30, 2007, including approximately 730 employees that are covered by collective bargaining agreements. Management believes it has good relations with employees.

Website and Available Information

Our website is located at www.flexsteel.com. Information on the website does not constitute part of this Annual Report on Form 10-K.

A copy of the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission ("SEC"), and other SEC reports filed or furnished are available on the Company's website at www.flexsteel.com without charge. Copies of our SEC reports and filings, and our Code of Ethics referred to as our *Guidelines for Business Conduct*, can also be obtained, without charge, by writing to the Office of the Secretary, Flexsteel Industries, Inc., P. O. Box 877, Dubuque, IA 52004-0877.

Item 1A. Risk Factors

Our business is subject to a variety of risks. You should carefully consider the risk factors detailed below in conjunction with the other information contained in this Annual Report on Form 10-K. Should any of these risks actually materialize, our business, financial condition, and future prospects could be negatively impacted. These risks are not the only ones we face. There may be additional factors that are presently unknown to us or that we currently believe to be immaterial that could affect our business.

We may lose market share due to competition, which would decrease our future sales and earnings.

The furniture industry is very competitive and fragmented. We compete with many domestic and foreign manufacturers. Some competitors have greater financial resources than we have and some often offer extensively advertised, well-recognized, branded products. Additionally, competition from foreign producers has increased dramatically in the past few years. These foreign producers typically have lower selling prices due to their lower operating costs. As a result, we may not be able to maintain or to raise the prices of our products in response to such competitive pressures or increasing costs. Also, due to the large number of competitors and their wide range of product offerings, we may not be able to differentiate our products (through styling, finish and other construction techniques) from those of our competitors. Large retail furniture dealers have the ability to obtain offshore sourcing on their own. As a result, we are continually subject to the risk of losing market share, which may lower our sales and earnings.

We have been increasing our offshore capabilities to provide flexibility in product offerings and pricing to meet competitive pressures, but this approach may adversely affect our ability to service customers, which could lower future sales and earnings.

Our sourcing vendors may not supply goods that meet our manufacturing, quality or safety specifications, in a timely manner and at an acceptable price. We may reject goods that do not meet our specifications and either manufacture or find alternative vendors potentially at a higher cost, or may be forced to discontinue the product. Also, delivery of goods from our foreign sourcing vendors may be delayed for reasons not typically encountered with domestic manufacturing or sourcing, such as shipment delays caused by customs or labor issues.

Changes in political, economic, and social conditions, as well as laws and regulations in the other countries from which we source products could adversely affect us. This could make it more difficult for us to service our customers. International trade policies of the United States and countries from which we source products could adversely affect us. Imposition of trade sanctions relating to imports, taxes, import duties and other charges on imports could increase our costs and decrease our earnings. Also, significant fluctuations of foreign exchange rates against the value of the U.S. dollar could increase costs and decrease earnings.

Efforts to realign manufacturing could decrease our near-term earnings.

We continually review our manufacturing operations and offshore sourcing capabilities. As a result, we sometimes realign those operations and capabilities and institute cost savings programs. These programs can include the consolidation and integration of facilities, functions, systems and procedures. We also may shift certain products to or from domestic manufacturing to offshore sourcing. These realignments and cost savings programs generally involve some initial cost and can result in decreases in our near-term earnings until we achieve the expected cost reductions. We may not always accomplish these actions as quickly as anticipated, and we may not fully achieve the expected cost reductions.

An economic downturn could adversely affect our business and decrease our sales and earnings.

Economic downturns could affect consumer-spending habits by decreasing the overall demand for home furnishings, recreational vehicles and commercial products and adversely affect our business. Interest rates, consumer confidence, housing starts, and geopolitical factors that affect many other businesses are particularly significant to us because our products are consumer goods.

If we experience fluctuations in the price, availability and quality of raw materials, this could cause manufacturing delays, adversely affect our ability to provide goods to our customers and increase our costs, any of which could decrease our sales and earnings.

We use various types of wood, fabrics, leathers, upholstered filling material, high carbon spring steel, bar and wire stock and other raw materials in manufacturing furniture. Because we are dependent on outside suppliers for all of our raw material needs, we must obtain sufficient quantities of quality raw materials from our suppliers at acceptable prices and in a timely manner. We have no long-term supply contracts with our suppliers. Unfavorable fluctuations in the price, quality and availability of these raw materials could negatively affect our ability to meet demands of our customers. The inability to meet our customers' demands could result in the loss of future sales, and we may not always be able to pass along price increases to our customers due to competitive and marketing pressures.

Our failure to anticipate or respond to changes in consumer tastes and fashions in a timely manner could adversely affect our business and decrease our sales and earnings.

Furniture is a styled product and is subject to rapidly changing consumer trends and tastes. If we are unable to predict or respond to changes in these trends and tastes in a timely manner, we may lose sales and have to sell excess inventory at reduced prices. This could lower our sales and earnings.

If we experience the loss of large customers through business failures (or for other reasons), any extended business interruptions at our manufacturing facilities, or problems with our fabric suppliers, this could decrease our future sales and earnings.

Although we have no customers that individually represent 10% or more of our net sales, the possibility of business failures by, or the loss of, large customers could decrease our future sales and earnings. Lost sales may be difficult to replace and any amounts owed to us may become uncollectible. Our inability to fill customer orders during an extended business interruption could negatively impact existing customer relationships resulting in market share decreases.

The financial condition of some of our fabric suppliers could impede their ability to provide these products to us in a timely matter. We have seen the number of domestic suppliers declining, and a majority of those larger suppliers that remain are experiencing financial difficulties. In addition, upholstered furniture is highly fashion oriented, and if we are not able to acquire sufficient fabric variety, or if we are unable to predict or respond to changes in fashion trends, we may lose sales and have to sell excess inventory at reduced prices.

At times it is necessary we discontinue certain relationships with customers (retailers) who do not meet our growth, credit or profitability standards. Until realignment is established, there can be a decrease in near-term sales and earnings. We continually review relationships with our customers (retailers) and future realignments are possible based upon such ongoing reviews.

We are, and may in the future be, a party to legal proceedings and claims, including those involving product liability or environmental matters, some of which claim significant damages and could adversely affect our business, operating results and financial condition.

We face the business risk of exposure to product liability claims in the event that the use of any of our products results in personal injury or property damage. In the event any of our products prove to be defective, we may be required to recall or redesign such products. We maintain insurance against product liability claims, but there can be no assurance such coverage will continue to be available on terms acceptable to us or that such coverage will be adequate for liabilities actually incurred.

Given the inherent uncertainty of litigation, we can offer no assurance future litigation will not have a material adverse impact on our business, operating results or financial condition. We are also subject to various laws and regulations relating to environmental protection and the discharge of materials into the environment and we could incur substantial costs as a result of the noncompliance with, or liability for cleanup or other costs or damages under, environmental laws.

We may engage in acquisitions and investments in businesses, which could dilute our earnings per share and decrease the value of our common stock.

As part of our business strategy, we may make acquisitions and investments in businesses that offer complementary products. Risks commonly encountered in acquisitions include the possibility that we pay more than the acquired company or assets are worth, the difficulty of assimilating the operations and personnel of the acquired business, the potential disruption of our ongoing business and the distraction of our management from ongoing business. Consideration paid for future acquisitions could be in the form of cash or stock or a combination thereof. Dilution to existing stockholders and to earnings per share may result in connection with any such future acquisition.

We may experience impairment of our long-lived assets, which would decrease our earnings and net worth.

Accounting rules require that long-lived assets be tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. We have substantial long-lived assets, consisting primarily of property, plant and equipment, which based upon such events or changes in circumstances there could be a write-down of all or a portion of these assets negatively impacting earnings.

Restrictive covenants in our existing credit facilities may restrict our ability to pursue our business strategies.

Our existing credit facilities limit our ability, among other things, to: incur additional indebtedness; make investments; consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; and create liens.

The restrictions contained in our credit facilities could: limit our ability to plan for or react to market conditions or meet capital needs or otherwise restrict our activities or business plans; and adversely affect our ability to finance our operations, strategic acquisitions, investments or alliances or other capital needs or to engage in other business activities that would be in our best interest.

A breach of any of these restrictive covenants or our inability to comply with the required financial ratios could result in a default under our credit facilities. If a default occurs, the lender under our credit agreement may elect to declare all borrowings outstanding, together with accrued interest and other fees, to be immediately due and payable which would result in an event of default under our outstanding notes. The lender will also have the right in these circumstances to terminate any commitments they have to provide further borrowings. If we are unable to repay outstanding borrowings when due, the lender will also have the right to initiate collection proceedings against us. If the indebtedness under our credit facilities were to be accelerated, we cannot assure you that our assets would be sufficient to repay in full the indebtedness under the credit facilities and our other indebtedness.

Terms of collective bargaining agreements and labor disruptions could adversely impact our results of operations.

We employ approximately 2,250 people, 32% of whom are covered by union contracts. Where a significant portion of our workers are unionized, our ability to implement productivity improvements and effect savings with respect to health care, pension and other retirement costs is more restricted than in many nonunion operations as a result of various restrictions specified in our collective bargaining agreements. Terms of collective bargaining agreements that prevent us from competing effectively could adversely affect our financial condition, results of operations and cash flows. We are committed to working with those groups to resolve conflicts as they arise. However, there can be no assurance that these efforts will be successful.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company owns the following facilities:

Location	Approximate Size (square feet)	Principal Operations
Dubuque, Iowa	853,000	Warehouse – Recreational Vehicle – Metal Working and Corporate Offices
Lancaster, Pennsylvania	216,000	Upholstered Furniture
Riverside, California	305,000	Upholstered Furniture – Recreational Vehicle – Warehouse and Distribution
Dublin, Georgia	300,000	Upholstered Furniture
Harrison, Arkansas	221,000	Upholstered Furniture – Woodworking
Starkville, Mississippi	349,000	Upholstered Furniture – Woodworking
New Paris, Indiana	168,000	Recreational Vehicle – Metal Working
Huntingburg, Indiana	691,000	Case Goods Production and Assembly – Woodworking – Warehouse
Ferdinand, Indiana	32,000	Woodworking

The Company leases the following facilities:

Location	Approximate Size (square feet)	Principal Operations
Vancouver, Washington	16,000	Warehouse and Distribution
Louisville, Kentucky	15,000	Administrative Offices
Ferdinand, Indiana	158,000	Warehouse and Distribution
Jasper, Indiana	155,000	Warehouse and Distribution

The Company's operating plants are well suited for their manufacturing purposes and have been updated and expanded from time to time as conditions warrant. Management believes there is adequate production capacity at the Company's facilities to meet present market demands.

The Company leases showrooms for displaying its products in the furniture markets in High Point, North Carolina and Las Vegas, Nevada.

Item 3. Legal Proceedings

From time to time, the Company is subject to various legal proceedings, including lawsuits, which arise out of, and are incidental to, the conduct of the Company's business. The Company does not consider any of such proceedings that are currently pending, individually or in the aggregate, to be material to its business or likely to result in a material adverse effect on its consolidated operating results, financial condition, or cash flows.

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

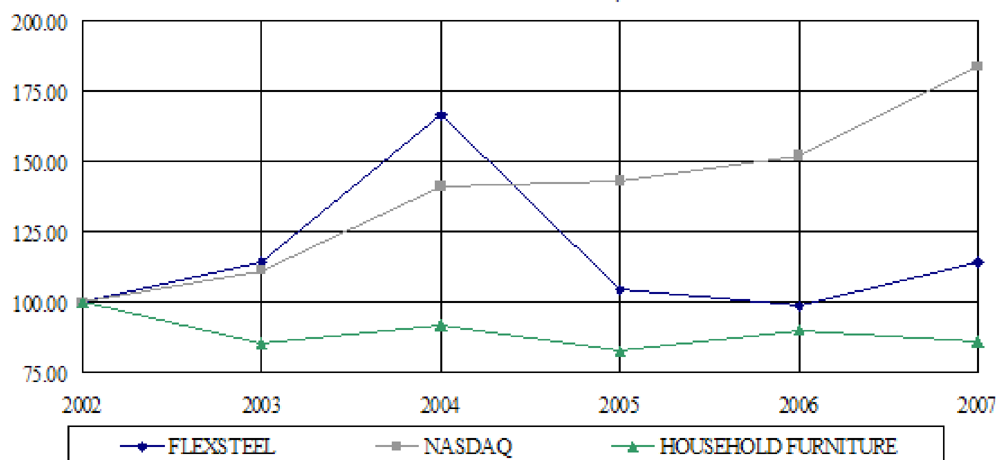
During the quarter ended June 30, 2007 no matter was submitted to a vote of security holders.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Share Investment Performance

The following graph is based upon the SIC Code #251 Household Furniture Index as a peer group. It shows changes over the past five-year period in the value of $100 invested in: (1) Flexsteel's common stock; (2) The NASDAQ Global Market; and (3) an industry group of the following: Bassett Furniture Ind., Chromcraft Revington Inc., Ethan Allen Interiors, Furniture Brands Intl., Hooker Furniture Corp., Interface Inc., Kimball International, Natuzzi S.P.A., La-Z-Boy Inc., and Stanley Furniture Inc. The Company made changes to its Peer Group in fiscal year ended 2007. The Rowe Companies was removed due to its bankruptcy. Interface Inc. and Kimball International were added as our Nominating and Compensation Committee includes the two companies in our peer group when evaluating compensation.



	2002	2003	2004	2005	2006	2007
Flexsteel	100.00	113.91	166.38	104.51	98.60	114.19
Peer Group	100.00	85.50	91.43	82.31	89.96	86.12
NASDAQ	100.00	111.45	141.31	142.87	152.12	183.63

The NASDAQ Global Market is the principal market on which the Company's common stock is traded.

	Sale Price of Common Stock *				Cash Dividends Per Share	
	Fiscal 2007		Fiscal 2006			
	High	Low	High	Low	Fiscal 2007	Fiscal 2006
First Quarter	$ 13.59	$ 12.02	$ 15.51	$ 14.00	$ 0.13	$ 0.13
Second Quarter	13.26	11.55	15.47	13.56	0.13	0.13
Third Quarter	15.47	12.51	14.84	13.67	0.13	0.13
Fourth Quarter	15.94	12.71	14.10	12.01	0.13	0.13

* Reflects the market price as reported on The NASDAQ Global Market.

The Company estimates there were approximately 1,800 holders of common stock of the Company as of June 30, 2007.

There were no repurchases of the Company's common stock during the quarter ended June 30, 2007.

Item 6. Selected Financial Data

The selected financial data presented below should be read in conjunction with the Company's consolidated financial statements and notes thereto included in Item 8 of this Annual Report on Form 10-K with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 of this Annual Report on Form 10-K. The selected consolidated statement of operations data of the Company is derived from the Company's consolidated financial statements.

Five-Year Review
(Amounts in thousands, except per share data)

	FOR THE YEARS ENDED JUNE 30,				
	2007	2006	2005	2004 (5)	2003
SUMMARY OF OPERATIONS					
Net sales	$ 425,400	$ 426,408	$ 410,023	$ 401,222	$ 291,977
Cost of goods sold	344,177	345,068	333,170	318,047	226,438
Operating income	14,699	8,561	9,066	16,602	13,284
Interest and other income	1,277	775	628	977	1,084
Interest expense	1,491	1,557	990	839	127
Income before income taxes	14,484	7,778	8,704	16,740	14,241
Provision for income taxes (4)	5,150	3,060	2,660	6,610	5,950
Net income (1) (2) (3)	9,334	4,718	6,044	10,130	8,291
Earnings per common share: (1) (2) (3)					
Basic	1.42	0.72	0.93	1.57	1.33
Diluted	1.42	0.72	0.92	1.55	1.30
Cash dividends declared per common share	$ 0.52	$ 0.52	$ 0.52	$ 0.52	$ 0.52
STATISTICAL SUMMARY					
Average common shares outstanding:					
Basic	6,568	6,558	6,531	6,440	6,255
Diluted	6,583	6,577	6,601	6,530	6,367
Total assets	$ 184,164	$ 183,326	$ 166,658	$ 169,519	$ 120,700

Property, plant and equipment, net		28,168		24,158		26,141		30,327		20,378
Capital expenditures		10,839		3,411		3,347		6,030		5,100
Long-term debt		21,336		21,846		12,800		17,583		—
Working capital (current assets less current liabilities)		99,339		96,987		85,388		83,352		67,666
Shareholders' equity	$	114,115	$	107,502	$	104,798	$	101,612	$	93,753
SELECTED RATIOS										
Net income as percent of sales		2.2%		1.1%		1.5%		2.5%		2.8%
Current ratio		3.3 to 1		3.0 to 1		3.0 to 1		2.9 to 1		4.0 to 1
Return on ending shareholders' equity		8.2%		4.4%		5.8%		10.0%		8.8%
Return on beginning shareholders' equity		8.7%		4.5%		6.0%		10.8%		9.5%
Average number of employees		2,290		2,400		2,460		2,610		2,320

(1) Fiscal 2007 net income and per share amounts reflect the net gain (after tax) on sale of building of approximately $2.5 million or $0.37 per share, the gain on life insurance of $0.6 million or $0.08 per share and the net gain (after tax) on the sale of vacant land of approximately $0.2 million or $0.04 per share.

(2) Fiscal 2007 and 2006 net income and per share amounts reflect the recording of stock-based compensation expense, as required by Statement of Financial Accounting Standard No. 123 (Revised), of $0.2 million and $0.4 million (after tax), respectively, or $0.04 per share and $0.06 per share, respectively.

(3) Fiscal 2005 net income and per share amounts reflect a net gain (after tax) on the sale of facilities of approximately $0.5 million or $0.08 per share.

(4) During the fiscal year ended June 30, 2005, an examination by the Internal Revenue Service of the Company's federal income tax returns for the fiscal years ended June 30, 2003 and 2004 was completed. Due to the favorable settlement results, the Company reduced its estimate of accrued tax liabilities by $0.7 million. The decrease resulted in an income tax rate of 30.6% for the fiscal year ending June 30, 2005.

(5) The Company acquired DMI Furniture, Inc. ("DMI") in a business combination accounted for as a purchase on September 17, 2003. The amounts herein include the operations of DMI since that date.

Item 7. 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 the Company should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

Critical Accounting Estimates

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. 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, self-insurance programs, warranty costs and income taxes. Ultimate results may differ from these estimates under different assumptions or conditions.

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

Inventories – the Company values inventory at the lower of cost or market. A large portion of our finished goods inventory is made to order and many of our raw material parts are interchangeable between products. Historically inventory write-downs to market have been in fabric and sourced products purchased for inventory. On a quarterly basis, management assesses the inventory on hand versus estimated future usage and estimated selling prices and if necessary writes down the obsolete or excess inventory to market. Although, we believe that inventory valuations are reasonable, unexpected changes in sales volume due to economic or competitive conditions may impact inventory valuations. 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. There were no impairments taken during fiscal 2007, 2006 or 2005.

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 purchases specific stop-loss insurance for individual health care claims in excess of $150,000 per plan year, with a $1.0 million individual lifetime maximum. For workers' compensation the Company retains the first $350,000 per claim and purchases excess coverage up to the statutory limits for amounts in excess of the retention limit. 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 based on product performance.

Warranty – the Company has warranty coverages with respect to the original purchases of our products that range from three months to lifetime. To estimate the warranty liability, the Company completes an analysis of the amount of warranty claims on sold product that may be incurred. This analysis includes consideration of: claim trends from historical levels to current and projected levels, changes in product performance, historical and expected claim lag periods,

changes in sales levels and changes in product mix. The actual warranty expense could differ from the estimates made by the Company based on product performance.

Income taxes – the Company accounts for income taxes in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. In the preparation of the Company's consolidated financial statements, management calculates income taxes. This includes estimating the Company's current tax liability as well as assessing temporary differences resulting from different treatment of items for tax and book accounting purposes. These differences result in deferred tax assets and liabilities, which are recorded on the balance sheet. These assets and liabilities are analyzed regularly and management assesses the likelihood that deferred tax assets will be realized from future taxable income.

Revenue recognition – is upon delivery of product to our customer. Delivery of product to our customer is evidenced through the shipping terms indicating when title and risk of loss is transferred. Our ordering process creates persuasive evidence of the sale arrangement and the sales amount is determined. The delivery of the goods to our customer completes the earnings process. Net sales consist of product sales and related delivery charge revenue, net of adjustments for returns and allowances. Shipping and handling costs are included in cost of goods sold.

Accounting Developments

See Item 8. Note 1 to the Company's Consolidated Financial Statements.

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 fiscal years ended June 30, 2007, 2006 and 2005. Amounts presented are percentages of the Company's net sales.

	FOR THE YEARS ENDED JUNE 30,		
	2007	**2006**	**2005**
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	(80.9)	(80.9)	(81.3)
Gross margin	19.1	19.1	18.7
Selling, general and administrative	(16.7)	(17.1)	(16.7)
Gain on sale of land and building	1.0	—	0.2
Operating income	3.4	2.0	2.2
Other (expense) income, net	(0.0)	(0.2)	(0.1)
Income before income taxes	3.4	1.8	2.1
Provision for income taxes	(1.2)	(0.7)	(0.6)
Net income	2.2%	1.1%	1.5%

Fiscal 2007 Compared to Fiscal 2006

Net sales for the fiscal year ended June 30, 2007 were $425.4 million compared to $426.4 million in the prior fiscal year. Residential net sales were $259.7 million, a decrease of 3% from the fiscal year ended June 30, 2006. Commercial net sales were $99.5 million for the fiscal year ended June 30, 2007, an increase of 15% from the fiscal year ended June 30, 2006. This increase in commercial net sales for the fiscal year ended June 30, 2007 is primarily due to expanded commercial office product offerings and improved industry performance of hospitality products. Recreational vehicle net sales were $66.2 million for the fiscal year ended June 30, 2007, a decrease of 8% from the fiscal year ended June 30, 2006. The fiscal year decline in recreational vehicle net sales is due to a generally soft wholesale market environment for recreational vehicles.

Net income for the fiscal year ended June 30, 2007 was $9.3 million or $1.42 per share. Results for the fiscal year ended June 30, 2007 were favorably impacted by three significant non-recurring events. The Company sold a commercial property, which resulted in a pre-tax gain of approximately $4.0 million, or $0.37 per share after tax. During the third quarter, the Company recognized a pre-tax gain on the sale of vacant land of approximately $0.4 million or $0.04 per share after tax. These gains are reported as "Gain on sale of capital assets" in the Consolidated Statements of Income. The Company also realized a non-taxable gain on life insurance of $0.6 million, or $0.08 per share. This gain is included in "Interest and other income" in the Consolidated Statements of Income.

Gross margin for the fiscal years ended June 30, 2007 and 2006 was 19.1%.

Selling, general and administrative expenses were 16.7% and 17.1% of net sales for the fiscal year ended June 30, 2007 and 2006, respectively. The decrease in selling, general and administrative costs of approximately $1.9 million compared to the prior fiscal year is due primarily to lower marketing and sales support expenses and lower bad debt expense of $0.8 million.

The effective income tax rate for the fiscal year ended June 30, 2007 was 35.6%. The rate was reduced by approximately 1.4% due to the non-taxable life insurance gain. The effective income tax rate was 39.3% for the fiscal year ended June 30, 2006.

The above factors resulted in net income for the fiscal year ended June 30, 2007 of $9.3 million or $1.42 per share compared to $4.7 million or $0.72 per share for the fiscal year ended June 30, 2006.

All earnings per share amounts are on a diluted basis.

Fiscal 2006 Compared to Fiscal 2005

Net sales for the fiscal year ended June 30, 2006 were $426.4 million compared to $410.0 million in the prior fiscal year, an increase of 4%. Residential net sales of $267.7 million were up 2% from residential net sales of $261.9 million in the prior year. Recreational vehicle net sales decreased 9% to $72.0 million, compared to $78.8 million in the fiscal year ended June 30, 2005. The fiscal year decline in recreational vehicle net sales is due to a generally soft wholesale market environment for recreational vehicles. Net sales of commercial products increased from $69.3 million to $86.7 million, for the fiscal year ended June 30, 2006. This approximate 25% increase in commercial net sales for the fiscal year ended June 30, 2006 is primarily due to expanded commercial office product offerings and improved industry performance of hospitality products.

Gross margin for the fiscal year ended June 30, 2006 was 19.1% compared to 18.7% for the prior fiscal year. Gross margin for the fiscal year ended June 30, 2006 was adversely affected by cost increases for steel, petroleum based products and poly foam when compared to the fiscal year ended June 30, 2005. Gross margin improvement for the year is a result of a greater percentage of shipments being commercial office, hospitality and foreign sourced products whose margins were not as significantly impacted by raw material cost increases.

Selling, general and administrative expenses were 17.1% and 16.7% of net sales for the fiscal year ended June 30, 2006 and 2005, respectively. Year-to-date percentage increase in SG&A expenses reflects the recording of stock-based compensation expense of $0.4 million (after tax) with the balance primarily related to an increase in marketing related costs.

During the fiscal year ended June 30, 2005, the Company recorded a pre-tax gain on the sale of facilities of $0.8 million.

The effective income tax rate was 39.3% for the fiscal year ended June 30, 2006. During the fiscal year ended June 30, 2005, an examination by the Internal Revenue Service of the Company's federal income tax returns for the fiscal years ended June 30, 2003 and 2004 was completed. Due to the favorable settlement results, the Company reduced its estimate of accrued tax liabilities by $0.7 million. The decrease resulted in an income tax rate of 30.6% for the fiscal year ended June 30, 2005.

The above factors resulted in net income for the fiscal year ended June 30, 2006 of $4.7 million or $0.72 per share compared to $6.0 million or $0.92 per share for the fiscal year ended June 30, 2005, a decrease of 22%.

All earnings per share amounts are on a diluted basis.

Liquidity and Capital Resources

Net cash provided by operating activities was $10.3 million in fiscal year 2007 compared with net cash used in operating activities of $7.3 million in fiscal year 2006. The 2007 increase was due primarily to changes in working capital. Significant working capital changes from June 30, 2006 to June 30, 2007 included: increased accounts receivables of $5.1 million, decreased inventory levels of $6.0 million and decreased accounts payable of $2.2 million. The increase in receivables is related to timing of shipments and related payment terms. The decrease in inventory is due primarily to timing of inventory purchases to meet our forecasted customer demands. The decrease in accounts payable is due to the reduction in inventory levels and the timing of payments. In 2006, there was a large increase in inventory levels of $14.8 million that significantly impacted cash flows from operations. The Company expects that due to the nature of our operations that there will be significant fluctuations in inventory levels, the related accounts payable, and cash flows from operations due to the following: we purchase a significant amount of inventory in large orders from overseas suppliers with significant lead times and depending on the timing of those large orders inventory levels can be significantly impacted, we have various large customers that purchase significant quantities of inventory at a time and the timing of those purchases can significantly impact inventory levels, accounts receivable, accounts payable and short-term borrowings. As discussed below the Company believes it has adequate financing arrangements and access to capital to absorb these fluctuations in operating cash flow.

Net cash used in investing activities was $5.1 million in fiscal year 2007 compared to $0.1 million in fiscal year 2006. The significant change in investing activities is related to the large amount of capital expenditures made in 2007 somewhat offset by a sale of land and commercial property. Capital expenditures were $10.8 million, $3.4 million and $3.3 million in fiscal 2007, 2006 and 2005, respectively. Fiscal 2007 expenditures included approximately $6.0 million for the purchase of a west coast warehouse and approximately $1.5 million for a warehouse addition in Indiana to support the growth of foreign-sourced furniture products. The remainder of expenditures was primarily for delivery and manufacturing equipment. Depreciation and amortization expense was $5.3 million and $5.5 million for the fiscal year ended June 30, 2007 and 2006, respectively. The Company expects that capital expenditures will be approximately $3.0 million in fiscal year 2008. The significant fiscal year 2007 capital expenditure cash outflows were offset by a significant sale of commercial property resulting in total cash proceeds of $5.5 million and a sale of vacant land of approximately $0.4 million. The commercial property was previously leased to a non-related third party and used as retail space. Neither the sale of the commercial property or vacant land is expected to significantly impact future operations.

Net cash used in financing activities was $6.3 million in fiscal year 2007 compared to net cash provided by financing activities of $7.6 million in 2006. The significant fluctuations in financing cash flows relates to the borrowings to fund operating cash flow requirements. Cash dividends were $3.4 million in 2007 and in 2006.

Management believes that the Company has adequate cash, cash equivalents, and credit arrangements to meet its operating and capital requirements for fiscal 2008. 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.

The following table summarizes the Company's contractual obligations at June 30, 2007 and the effect these obligations are expected to have on the Company's liquidity and cash flow in the future (in thousands):

	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
Long-term debt obligations	$ 28,366	$ 7,030	$ 1,091	$ 20,245	$ —
Interest on long-term debt obligations	5,660	970	2,270	2,420	—
Operating lease obligations	6,461	2,504	2,964	753	240
Total contractual cash obligations	$ 40,487	$ 10,504	$ 6,325	$ 23,418	$ 240

Contractual obligations associated with the Company's deferred compensation plans were excluded from the table above, as the Company cannot predict when the events that trigger payment will occur. Total accumulated deferred compensation liabilities were $5.5 million at June 30, 2007. At June 30, 2007 the Company had no capital lease obligations, and no purchase obligations for raw materials or finished goods extending more than six months. The purchase price on all open purchase orders was fixed and denominated in U.S. dollars.

Financing Arrangements

See Note 7 to the Consolidated Financial Statements on page 27 of this filing on Form 10-K.

Outlook

Consistent with industry-wide trends, orders for residential and vehicle markets continued soft throughout the Company's fiscal year. The residential furniture market is very challenging and continues to quickly change. We are confident in our strategy of offering a blended product mix through multiple independent distribution outlets. The vehicle seating business is slower than desired at this time, however, we like the mid to longer-term demographics and our position as a supplier to the top ten original equipment manufacturers. The Company expects this softness in the residential and vehicle seating markets to continue through the first half of fiscal year 2008. The growth in orders for products into commercial applications slowed in the fourth quarter of fiscal 2007. Even with this moderated growth rate, we continue to believe that our commercial business will continue to be a bright spot in the near term and we will use the growth opportunities in commercial and hospitality markets to continue to grow a base for longer term growth.

The Company continues to explore cost control opportunities in all facets of its business. The Company believes it has the necessary inventories and product offerings in place to take advantage of opportunities for expansion of market share in certain markets, such as commercial office and hospitality. The Company anticipates continuing its strategy of providing furniture from a wide selection of domestically manufactured and imported products.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

General – Market risk represents the risk of changes in the 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, disruptions associated with shipping distances and negotiations with port employees. 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.

Impairment of long-lived assets – Accounting rules require that long-lived assets be evaluated for impairment whenever events or changes in circumstances indicate that its carrying value may not be recoverable. We have substantial long-lived assets, consisting mainly of property, plant and equipment, which based upon such events or changes in circumstances, there could be a write-down of all or a portion of these assets and a corresponding reduction in our earnings and net worth. At June 30, 2007, no impairment of long-lived assets has been identified.

Foreign Currency Risk – During fiscal 2007, 2006 and 2005, the Company did not have sales, purchases, or other expenses denominated in foreign currencies. 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 June 30, 2007, a hypothetical 100 basis point increase in short-term interest rates would decrease annual pre-tax earnings by approximately $110,000, assuming no change in the volume or composition of debt. The Company has effectively fixed the interest rates at 4.5% on approximately $15.6 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 June 30, 2007, the fair value of these swaps is an asset of approximately $0.1 million and is included in other assets.

Tariffs – The Company has exposure to actions by governments, including tariffs. Tariffs are a possibility on any imported or exported products.

Inflation – Increased operating costs are reflected in product or services pricing with any limitations on price increases determined by the marketplace. The impact of inflation on the Company has not been significant during the past three years because of the relatively low rates of inflation experienced in the United States. Raw material costs, labor costs and interest rates are important components of costs for the Company. Inflation or other pricing pressures could impact any or all of these components, with a possible adverse effect on our profitability, especially where increases in these costs exceed price increases on finished products. In recent years, the Company has faced strong inflationary and other pricing pressures with respect to steel, fuel and health care costs, which have been partially mitigated by pricing adjustments.

Item 8. Financial Statements and Supplementary Data

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

To the Shareholders of Flexsteel Industries, Inc.

As Flexsteel Industries, Inc.'s Chief Executive Officer and Chief Financial Officer, we are responsible for the presentation, accuracy, and objectivity of the information contained in our financial statements. Flexsteel Industries, Inc. has enjoyed a long-standing reputation for integrity, candor, and high quality earnings. We intend to protect the reputation. To that end, we employ a formal system of corporate conduct, internal control and audit, external audit, and Board of Directors oversight.

- We promote a strong ethical climate and encourage employees to conduct the Company's business according to high personal corporate standards. Our Guidelines for Business Conduct, which is distributed annually, requires employees to comply with all applicable laws, protect the Company's assets, keep proprietary information confidential, and disclose potential conflicts of interest.
- Our internal control and audit systems are designed to provide reasonable assurance that financial reports are reliable, and are prepared in accordance with generally accepted accounting principles. Our report on internal control appears in Section 9A.
- Deloitte & Touche LLP, an independent registered public accounting firm, audits the Company's consolidated financial statements.
- The Board of Directors, through its Audit and Ethics Committee, meets with Management and Deloitte & Touche LLP to ensure that each is performing its responsibilities properly. Deloitte & Touche LLP has open and direct access to the Audit and Ethics Committee, without Management present, to discuss the results of their work, including internal accounting controls and the quality of financial reporting.

Accordingly, we are confident that the consolidated financial statements in this Annual Report on Form 10-K have been prepared in accordance with generally accepted accounting principles. Financial information elsewhere in this Annual Report on Form 10-K is consistent with the information in the financial statements.

Ronald J. Klosterman	**Timothy E. Hall**
Chief Executive Officer	*Chief Financial Officer*

August 29, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of Flexsteel Industries, Inc.

We have audited the accompanying consolidated balance sheets of Flexsteel Industries, Inc. and subsidiaries (the "Company") as of June 30, 2007 and 2006, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended June 30, 2007. We also have audited management's assessment, included in the accompanying Management's Annual Report On Internal Controls Over Financial Reporting, that the Company maintained effective internal control over financial reporting as of June 30, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on these financial statements, an opinion on management's assessment, and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the

company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Flexsteel Industries, Inc. and subsidiaries as of June 30, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2007, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of June 30, 2007, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2007, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

DELOITTE & TOUCHE LLP

Minneapolis, Minnesota

August 29, 2007

FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

	JUNE 30,	
ASSETS	**2007**	**2006**
CURRENT ASSETS:		
Cash and cash equivalents	$ 900,326	$ 1,985,768
Investments	976,180	817,618
Trade receivables – less allowance for doubtful accounts: 2007, $2,090,000; 2006, $2,820,000	56,273,874	51,179,791
Inventories	78,756,985	84,769,972
Deferred income taxes	3,850,000	4,620,000
Other	1,759,045	2,014,121
Total current assets	142,516,410	145,387,270
NONCURRENT ASSETS:		
Property, plant and equipment, net	28,168,244	24,158,041
Deferred income taxes	1,270,000	2,210,000
Other assets	12,209,528	11,570,393
TOTAL	$ 184,164,182	$ 183,325,704
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable – trade	$ 13,607,485	$ 15,768,435
Notes payable	7,030,059	9,466,643
Accrued liabilities:		
Payroll and related items	7,530,083	7,720,173
Insurance	7,615,532	7,651,109
Other	7,394,448	7,793,645
Total current liabilities	43,177,607	48,400,005
LONG-TERM LIABILITIES:		
Long-term debt	21,336,352	21,846,386
Deferred compensation	5,535,113	5,207,176
Other liabilities	—	369,812
Total liabilities	70,049,072	75,823,379
COMMITMENTS AND CONTINGENCIES (Note 15)		
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 2007, 6,570,467 shares; 2006, 6,563,750 shares	6,570,467	6,563,750
Additional paid-in capital	4,013,456	3,670,152
Retained earnings	102,421,056	96,502,311
Accumulated other comprehensive income	1,110,131	766,112
Total shareholders' equity	114,115,110	107,502,325
TOTAL	$ 184,164,182	$ 183,325,704

See accompanying Notes to Consolidated Financial Statements.

FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES
Consolidated Statements of Income

	FOR THE YEARS ENDED JUNE 30,		
	2007	2006	2005
NET SALES	$ 425,399,951	$ 426,407,585	$ 410,022,809
COST OF GOODS SOLD	(344,176,763)	(345,068,305)	(333,170,329)
GROSS MARGIN	81,223,188	81,339,280	76,852,480
SELLING, GENERAL AND ADMINISTRATIVE	(70,895,260)	(72,778,577)	(68,595,788)
GAIN ON SALE OF CAPITAL ASSETS	4,370,712	—	809,022
OPERATING INCOME	14,698,640	8,560,703	9,065,714
OTHER INCOME (EXPENSE):			
Interest and other income	1,276,857	774,783	627,996
Interest expense	(1,491,510)	(1,557,303)	(989,754)
Total	(214,653)	(782,520)	(361,758)
INCOME BEFORE INCOME TAXES	14,483,987	7,778,183	8,703,956
PROVISION FOR INCOME TAXES	(5,150,000)	(3,060,000)	(2,660,000)
NET INCOME	$ 9,333,987	$ 4,718,183	$ 6,043,956
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:			
Basic	6,567,522	6,558,440	6,531,293
Diluted	6,582,558	6,577,278	6,600,905
EARNINGS PER SHARE OF COMMON STOCK:			
Basic	$ 1.42	$ 0.72	$ 0.93
Diluted	$ 1.42	$ 0.72	$ 0.92
CASH DIVIDENDS DECLARED PER COMMON SHARE	$ 0.52	$ 0.52	$ 0.52

See accompanying Notes to Consolidated Financial Statements.

FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Shareholders' Equity

	Total Par Value of Common Shares ($1 Par)	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at June 30, 2004	$ 6,494,228	$ 2,111,477	$ 92,552,045	$ 453,992	$ 101,611,742
Issuance of common stock:					
Stock options exercised, net	4,595	129,661	—	—	134,256
401(k) plan and management incentive shares	42,613	713,260	—	—	755,873
Unrealized gain on available for sale investments, net of tax	—	—	—	209,352	209,352
Interest rate swaps valuation adjustment, net of tax	—	—	—	(6,810)	(6,810)
Minimum pension liability adjustment, net of tax	—	—	—	(550,670)	(550,670)
Cash dividends declared	—	—	(3,399,979)	—	(3,399,979)
Net income	—	—	6,043,956	—	6,043,956
Balance at June 30, 2005	6,541,436	2,954,398	95,196,022	105,864	104,797,720
Issuance of common stock:					
Stock options exercised, net	2,000	20,500	—	—	22,500
401(k) plan and management incentive shares	20,314	268,254	—	—	288,568

Unrealized loss on available for sale investments, net of tax	—	—	—	(221)	(221)
Stock-based compensation	—	427,000	—	—	427,000
Interest rate swaps valuation adjustment, net of tax	—	—	—	116,910	116,910
Minimum pension liability adjustment, net of tax	—	—	—	543,559	543,559
Cash dividends declared	—	—	(3,411,894)	—	(3,411,894)
Net income	—	—	4,718,183	—	4,718,183
Balance at June 30, 2006	6,563,750	3,670,152	96,502,311	766,112	107,502,325
Issuance of common stock:					
Stock options exercised, net	1,566	10,891	—	—	12,457
401(k) plan and management incentive shares	5,151	58,413	—	—	63,564
Unrealized gain on available for sale investments, net of tax	—	—	—	301,611	301,611
Stock-based compensation	—	274,000	—	—	274,000
Interest rate swaps valuation adjustment, net of tax	—	—	—	(168,137)	(168,137)
SFAS No. 87 minimum pension liability	—	—	—	254,638	254,638
SFAS No. 158 transition adjustment	—	—	—	(44,093)	(44,093)
Cash dividends declared	—	—	(3,415,242)	—	(3,415,242)
Net income	—	—	9,333,987	—	9,333,987
Balance at June 30, 2007	$ 6,570,467	$ 4,013,456	$ 102,421,056	$ 1,110,131	$ 114,115,110

See accompanying Notes to Consolidated Financial Statements.

FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

	FOR THE YEARS ENDED JUNE 30,		
	2007	2006	2005
OPERATING ACTIVITIES:			
Net income	$ 9,333,987	$ 4,718,183	$ 6,043,956
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,270,651	5,485,884	5,785,354
Deferred income taxes	1,464,664	(948,000)	(1,150,000)
Stock-based compensation expense	274,000	427,000	—
Gain on disposition of capital assets	(4,407,682)	(55,504)	(879,462)
Changes in operating assets and liabilities, net of acquisition:			
Trade receivables	(5,094,083)	(2,824,721)	(185,290)
Inventories	6,012,987	(14,824,572)	(1,065,282)
Other current assets	255,076	(162,251)	1,079,110
Other assets	57,919	(582,112)	(472,751)
Accounts payable – trade	(2,160,950)	(491,470)	3,987,500
Accrued liabilities	(631,804)	3,076,331	(325,542)
Other long-term liabilities	(411,588)	(1,218,862)	(132,318)
Deferred compensation	327,938	145,225	38,347
Net cash provided by (used in) operating activities	10,291,115	(7,254,869)	12,723,622
INVESTING ACTIVITIES:			
Purchases of investments	(774,964)	(1,118,446)	(860,312)
Proceeds from sales of investments	476,840	1,773,698	584,981
Proceeds from sale of capital assets	6,039,946	89,786	2,121,083
Capital expenditures	(10,839,479)	(850,444)	(3,346,984)
Net cash used in investing activities	(5,097,657)	(105,406)	(1,501,232)
FINANCING ACTIVITIES:			
(Repayments of) proceeds from short-term borrowings, net	(2,470,729)	4,000,000	(4,022,090)
Repayment of long-term borrowings	(475,889)	(247,441)	(6,683,333)
Proceeds from long-term borrowings	—	7,200,000	1,899,997
Dividends paid	(3,414,369)	(3,408,994)	(3,393,842)
Proceeds from issuance of common stock	82,087	95,894	206,941
Net cash (used in) provided by financing activities	(6,278,900)	7,639,459	(11,992,327)
(Decrease) increase in cash and cash equivalents	(1,085,442)	279,184	(769,937)
Cash and cash equivalents at beginning of year	1,985,768	1,706,584	2,476,521
Cash and cash equivalents at end of year	$ 900,326	$ 1,985,768	$ 1,706,584

	FOR THE YEARS ENDED JUNE 30,		
	2007	2006	2005
SUPPLEMENTAL INFORMATION CASH PAID DURING THE PERIOD FOR:			
Interest	$ 1,517,000	$ 1,598,000	$ 1,087,000
Income taxes	$ 3,551,000	$ 3,244,000	$ 2,228,000

<u>**FLEXSTEEL INDUSTRIES, INC. AND SUBSIDIARIES**</u>
Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS – Flexsteel Industries, Inc. and subsidiaries (the "Company") is one of the oldest and largest manufacturers, importers and marketers of residential, recreational vehicle and commercial 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. Product offerings include a wide variety of upholstered and wood furniture such as sofas, loveseats, chairs, reclining and rocker-reclining chairs, swivel rockers, sofa beds, convertible bedding units, occasional tables, desks, dining tables and chairs, bedroom furniture and home and commercial office furniture. The Company has one active wholly-owned subsidiary: DMI Furniture, Inc. ("DMI"), acquired effective September 17, 2003, which is a Louisville, Kentucky-based, manufacturer, importer and marketer of residential and commercial office furniture with manufacturing plants and warehouses in Indiana and manufacturing sources in Asia; DMI's divisions are WYNWOOD, Homestyles and DMI Commercial Office Furniture. The Company has two inactive wholly-owned subsidiaries: (1) Desert Dreams, Inc., which owned and leased a commercial building to an unrelated entity until it was sold on June 15, 2007 and (2) Four Seasons, Inc.

PRINCIPLES OF CONSOLIDATION – the consolidated financial statements include the accounts of Flexsteel Industries, Inc. and its wholly owned subsidiaries. All intercompany transactions and accounts have been eliminated in consolidation.

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

FAIR VALUE – the Company's cash, investments, accounts receivable, other assets, accounts payable, accrued liabilities, notes payable, interest rate swaps and other liabilities are carried at amounts, which reasonably approximate their fair value due to their short-term nature. The Company's notes payable are at variable interest rates that approximate market. Fair values of investments in debt and equity securities are disclosed in Note 3.

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

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 net realizable fair value due to their short-term nature. The amount ultimately realized from trade accounts receivable may differ from the amount estimated in the consolidated financial statements based on collection experience and actual returns and allowances.

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

PROPERTY, PLANT AND EQUIPMENT – is stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets. For internal use software, the Company's policy is to capitalize external direct costs of materials and services, directly-related internal payroll and payroll-related costs, and interest costs.

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. No impairments or changes occurred during the fiscal year ended June 30, 2007.

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 the Company's customer. The Company's ordering process creates persuasive evidence of the sale arrangement and the sales amount is determined. The delivery of the goods to the customer completes the earnings process. Net sales consist of product sales and related delivery charge revenue, net of adjustments for returns and allowances. Shipping and handling costs are included in cost of goods sold.

ADVERTISING COSTS – are charged to selling, general and administrative expense in the periods incurred. The Company conducts no direct-response advertising programs and there are no assets related to advertising recorded on the consolidated balance sheet. Advertising expenditures, primarily shared customer advertising in which an identifiable benefit is received and national trade-advertising programs, were approximately $4.6 million, $4.4 million and $5.4 million in fiscal 2007, 2006 and 2005, respectively.

DESIGN, RESEARCH AND DEVELOPMENT COSTS – are charged to selling, general and administrative expense in the periods incurred. Expenditures for research and development costs were approximately $3.3 million, $3.0 million and $2.9 million in fiscal 2007, 2006 and 2005, respectively.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES – the Company utilizes interest rate swaps 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 $15.6 million with a weighted average fixed rate of 4.5% at June 30, 2007. 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 cumulative fair value of the swaps was an asset of approximately $0.1 million as of June 30, 2007 and is reflected as noncurrent other assets on the accompanying consolidated balance sheet. At each reporting period, the Company performs an assessment of hedge effectiveness by verifying and documenting whether the critical terms of the derivative instruments and the hedged items have changed during the period in review. All of the derivatives used by the Company in its risk management are highly effective hedges because all of the critical terms of the derivative instruments match those of the hedged item. The Company does not hold these derivative instruments for trade and does not plan to sell the instruments.

INSURANCE – the Company is self-insured for health care and most workers' compensation up to predetermined amounts above which third party insurance applies. The Company purchases specific stop-loss insurance for individual health care claims in excess of $150,000 per plan year, with a $1.0 million individual lifetime maximum. For workers' compensation the Company retains the first $350,000 per claim and purchases excess coverage up to the statutory limits for amounts in excess of the retention limit. The Company is contingently liable to insurance carriers under its comprehensive general, product, and vehicle liability policies, as well as some workers' compensation, and has provided letters of credit in the amount of $5.1 million. Losses are accrued based upon the Company's estimates of the aggregate liability for claims incurred using certain actuarial assumptions followed in the insurance industry and based on Company experience.

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

EARNINGS PER SHARE – basic earnings per share of common stock is based on the weighted-average number of common shares outstanding during each fiscal year. Diluted earnings per share of common stock includes 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 15,036 shares, 18,838 shares and 69,612 shares in fiscal 2007, 2006 and 2005, respectively. The Company calculates the dilutive effect of outstanding options using the treasury stock method. Options to purchase 572,200 shares, 420,201 shares and 147,895 shares of common stock were outstanding in fiscal 2007, 2006 and 2005, 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.

STOCK–BASED COMPENSATION – Prior to July 1, 2005, the Company had elected to apply 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 "Accounting for Stock-Based Compensation-Transition and Disclosure". Accordingly, no compensation cost was recognized for its stock option plans, as the exercise price was equal to the market price of the Company's stock on the date of grant.

On July 1, 2005, the Company adopted the fair value recognition provisions of SFAS No. 123 "Accounting for Stock-Based Compensation" (revised 2004), "Share-Based Payment" (123(R)), requiring the Company to recognize expense related to the fair value of stock-based compensation. The modified prospective transition method was used as allowed under SFAS No. 123(R). Under this method, the stock-based compensation expense includes: (a) compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of July 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, "Accounting for Stock-Based Compensation"; and (b) compensation expense for all stock-based compensation awards granted subsequent to July 1, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R). See Note 9 Stock-Based Compensation.

ACCOUNTING DEVELOPMENTS – In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes– an interpretation of FASB Statement No. 109* ("FIN 48"), which clarifies the accounting for uncertainty in tax positions. FIN 48 requires that the Company recognize in its consolidated financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective as of the beginning of the Company's 2008 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company is currently evaluating the impact of adopting FIN 48 on its consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective as of the beginning of the Company's 2009 fiscal year. The Company is currently evaluating the impact of adopting SFAS No. 157 on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans– an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. SFAS No. 158 requires the recognition of the funded status of a defined benefit plan in the statement of financial position, requires that changes in the funded status be recognized through comprehensive income, changes the measurement date for defined benefit plan assets and obligations to the entity's fiscal year-end and expands disclosures. The recognition and disclosures under SFAS No. 158 are required as of the end of the fiscal year 2007 while the new measurement date is effective for fiscal year 2008. The Company adopted the recognition, measurement and disclosure provisions of SFAS 158 on June 30, 2007. The impact of the adoption was a direct charge to equity to reduce accumulated other comprehensive income by $44,093.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS No. 159")*. SFAS No. 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. The provisions of SFAS No. 159 are effective as of the beginning of the Company's 2009 fiscal year. The Company is currently evaluating the impact of adopting SFAS No. 159 on its consolidated statements.

2. INVESTMENTS

Debt and equity securities are included in Investments and in Other Assets (for those investments designated for deferred compensation plans), at fair value based on quoted market prices, and are classified as available-for-sale. Available-for-sale securities consist of debt and equity securities that will be held for indefinite periods of time, including securities that may be sold in response to changes in market interest or prepayment rates, needs for liquidity, or changes in the availability or yield of alternative investments. These securities are valued at current market value, with the resulting unrealized holding gains and losses excluded from earnings and reported, net of tax, as a separate component of shareholders' equity until realized. Available-for-sale securities are included in current assets if they are available to fund current operations. Investments designated for deferred compensation are included within long-term

other assets. Realized gains on the sale of securities were approximately $0.3 million, $0.1 million, and $0.1 million at June 30, 2007, June 30, 2006, and June 30, 2005, respectively. A summary of the carrying values and fair values of the Company's investments is as follows:

	June 30, 2007			
	Cost	Gross Unrealized		Recorded
	Basis	Gains	Losses	Basis
Debt securities	$ 2,291,940	$ —	$ (30,100)	$ 2,261,840
Equity securities	2,655,807	1,741,275	—	4,397,082
	$ 4,947,747	$ 1,741,275	$ (30,100)	$ 6,658,922

	June 30, 2006			
	Cost	Gross Unrealized		Recorded
	Basis	Gains	Losses	Basis
Debt securities	$ 2,116,943	$ —	$ (65,728)	$ 2,051,215
Equity securities	2,532,679	1,268,238	—	3,800,917
	$ 4,649,622	$ 1,268,238	$ (65,728)	$ 5,852,132

	June 30, 2007		June 30, 2006	
	Investments	Other Assets	Investments	Other Assets
Debt securities	$ —	$ 2,261,839	$ —	$ 2,051,215
Equity securities	976,180	3,420,903	817,618	2,983,299
	$ 976,180	$ 5,682,742	$ 817,618	$ 5,034,514

As of June 30, 2007, all debt securities mature within one year.

3. INVENTORIES

Inventories valued on the LIFO method would have been approximately $3.7 million and $3.3 million higher at June 30, 2007 and 2006, respectively, if they had been valued on the FIFO method. At June 30, 2007 and 2006 the total value of LIFO inventory was $3.1 million and $3.8 million, respectively. During the fiscal year 2005, inventory quantities for steel and wood were reduced. This reduction resulted in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of 2005 purchases, the effect of which decreased cost of goods sold by approximately $1.1 million and increase net income by approximately $0.7 million. There was no material liquidation of LIFO inventory during fiscal 2007 and 2006. A comparison of inventories is as follows:

	June 30,	
	2007	2006
Raw materials	$ 16,389,200	$ 19,637,832
Work in process and finished parts	7,588,519	8,708,949
Finished goods	54,779,266	56,423,191
Total	$ 78,756,985	$ 84,769,972

4. PROPERTY, PLANT AND EQUIPMENT

	Estimated	June 30,	
	Life (Years)	2007	2006
Land		$ 4,048,666	$ 2,370,959
Buildings and improvements	3-39	40,242,157	36,784,785
Machinery and equipment	3-20	34,010,202	35,136,851
Delivery equipment	3-10	19,710,804	19,439,976
Furniture and fixtures	3-5	4,564,534	5,077,841
Total		102,576,363	98,810,412
Less accumulated depreciation		(74,408,119)	(74,652,371)
Net		$ 28,168,244	$ 24,158,041

5. OTHER ASSETS

	June 30,	
	2007	2006
Cash value of life insurance	$ 5,939,722	$ 6,011,959
Investments designated for deferred compensation plans	5,682,742	5,034,514
Other	587,064	523,920
Total	$ 12,209,528	$ 11,570,393

6. ACCRUED LIABILITIES – OTHER

	June 30,	
	2007	2006
Dividends	$ 854,161	$ 853,287
Advertising	1,327,255	1,209,808
Warranty	1,040,000	1,140,000
Income taxes payable	986,894	829,607
Other	3,186,138	3,760,943
Total	$ 7,394,448	$ 7,793,645

7. BORROWINGS AND CREDIT ARRANGEMENTS

At June 30, 2007, borrowings and credit arrangements consisted of the following:

Current:	
Current maturities of long-term debt	$ 500,788
Overnight borrowing interest rate at prime minus 1%; unsecured	1,529,271
$20.0 million working capital line of credit through June 30, 2008; interest rate at LIBOR + 0.75%; unsecured	5,000,000
Long-Term:	
$20.0 million revolving note; expires September 30, 2012; interest rate at LIBOR + 0.75%; unsecured	20,000,000
$2.6 million fixed rate note; requiring payments through December 2010; interest rate at 4.99%; secured by certain delivery equipment; net of current portion	1,336,352
Total	$ 28,366,411

The Company has credit facilities of $50.1 million with banks, with borrowings at differing rates based on the date and type of financing utilized. On June 25, 2007, the Company entered into agreements amending the maturity dates of its primary credit facilities. The amended agreements extend the maturity date for the $20.0 million long-term facility from October 31, 2010 to September 30, 2012 and the maturity date for the short-term $20.0 million facility from June 29, 2007 to June 30, 2008. The credit agreement provides for a $41.0 million unsecured credit facility and provides the Company with flexibility between long-term and short-term financing. The short-term portion of the credit facility provides working capital financing up to $20.0 million, of which $5.0 million was outstanding at June 30, 2007, with interest selected at the option of the Company at prime (8.25% at June 30, 2007) or LIBOR (5.32% at June 30, 2007) plus 0.75%. The short-term portion also provides overnight credit when required for operations at prime minus 1.0%. At June 30, 2007, $0.8 million was outstanding. The long-term portion of the credit facility provides up to $20.0 million, of which $20.0 million was outstanding at June 30, 2007. Variable interest is set monthly at the option of the Company at prime or LIBOR plus 0.75%. The credit facility also provides $1.0 million to support letters of credit issued by the Company of which $28,000 was outstanding as of June 30, 2007. All interest rates are adjusted monthly, except for the overnight portion of the short-term line of credit, which varies daily at the prime rate minus 1.0%. The Company has effectively fixed the interest rates at 4.5% on approximately $15.6 million of its long-term debt through the use of interest rate swaps.

The credit agreement contains certain restrictive covenants that require the Company, among other things, to maintain an interest coverage ratio, leverage ratio, and limitations on capital disposals, all as defined in the credit agreement. At June 30, 2007, the Company was in compliance with all financial covenants contained in the credit agreement.

The Company financed the purchase of delivery equipment through a five-year fixed rate note at 4.99%. The note requires payments through December 2010. The delivery equipment purchased with the note proceeds secures the note.

An officer of the Company is a director at one of the banks where the Company maintains a $4.0 million line of credit, cumulative letter of credit facilities of $5.1 million and where its routine daily banking transactions are processed. The Company is contingently liable to insurance carriers under its comprehensive general, product, and vehicle liability policies, as well as some workers' compensation, and has provided letters of credit in the amount of $5.1 million. The Company receives no special services or pricing on the services performed by the bank due to the directorship of this officer. At June 30, 2007, $0.7 million was outstanding on the line of credit at prime minus 1%.

8. INCOME TAXES

The provision for income taxes is as follows for the years ended June 30 (in thousands):

	2007	2006	2005
Federal – current	$ 6,045	$ 1,762	$ 1,050
State – current	570	350	460
Deferred	(1,465)	948	1,150
Total	$ 5,150	$ 3,060	$ 2,660

The total income tax provision in fiscal 2007, 2006 and 2005 was 35.6%, 39.3% and 30.6%, respectively, of income before income taxes. During fiscal 2005, an examination by the Internal Revenue Service of the Company's federal income tax returns for the fiscal years ended June 30, 2003 and 2004 was completed. Due to the favorable settlement results, the Company reduced its estimate of accrued tax liabilities resulting in a $0.7 million reduction in tax expense. The effect of such settlement is included in "Other" in the table below. Amounts accrued for uncertainties in federal, state and international tax positions totaled $0.4 million at June 30, 2007 and $0.5 million at June 30, 2006. A reconciliation between the U.S. federal statutory tax rate and the effective tax rate is as follows for the years ended June 30:

2007	2006	2005

Federal statutory tax rate	35.0%	34.0%	34.0%
State taxes, net of federal effect	2.6	2.8	3.5
Other	(2.0)	2.5	(6.9)
Effective tax rate	35.6%	39.3%	30.6%

The primary components of deferred tax assets and (liabilities) are as follows (in thousands):

	June 30, 2007		June 30, 2006	
	Current	Long-term	Current	Long-term
Investments	$ (650)	$ —	$ (460)	$ —
Accounts receivable	800	—	1,070	—
Inventory	740	—	1,080	—
Self insurance	1,165	—	1,150	—
Employee benefits	760	—	600	—
Accrued expenses	1,035	—	1,180	—
Property, plant and equipment	—	(900)	—	210
Deferred compensation	—	2,130	—	2,130
Other long-term accruals and allowances	—	40	—	(130)
Total	$ 3,850	$ 1,270	$ 4,620	$ 2,210

9. STOCK-BASED COMPENSATION

The Company has two stock-based compensation methods available when determining employee compensation.

(1) Management Incentive Plan – This plan provides for shares of common stock to be awarded to key employee based on targeted rate of earnings to common equity as established by the Board of Directors. Shares awarded to employees are subject to the restriction of continued employment, with one-third of the stock received by the employee on the award date and the remaining shares vested after one and two years. Under the plan no shares were awarded during the fiscal years ended June 30, 2007 or 2006. In fiscal 2005, 15,239 shares were awarded, and the amount charged to income was $215,000. These shares were issued in fiscal year 2006. As of June 30, 2007, there were 4,745 unvested shares outstanding with a weighted average grant date fair value of $0.1 million, which will vest in the first quarter of fiscal year 2008. Compensation cost related to these awards was not material during the fiscal year ended June 30, 2007 and is not expected to be material over the weighted average remaining life of 0.2 years. The Company expects forfeitures under this plan to be nominal and there were 50 shares and no shares forfeited in the fiscal years ended June 30, 2007 and 2006. At June 30, 2007, 69,407 shares were available for future grants.

(2) Stock Options Plans – The stock option plans for key employees and directors 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. The Company's shareholders have approved all stock option plans.

In fiscal years 2007 and 2006, the Company issued options for 135,000 and 159,500 common shares at an exercise price of $12.63 and $14.40 (the fair market value on the date of grant), respectively. The options were immediately available for exercise and may be exercised for a period of 10 years. In accordance with the provisions of SFAS No. 123(R) the Company recorded compensation expense of $0.3 million and $0.4 million, respectively. The Company also recorded a reduction of its income tax expense of $0.1 million in each year related to the issuance of these options. The assumptions used in determining the compensation expense and related income tax impacts are discussed below.

As discussed in Note 1, no compensation cost was recorded for options granted prior to July 1, 2005. Had the compensation expense for the Company's incentive stock option plans prior to July 1, 2005 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, the Company's net income and earnings per share would have been reduced to the following pro forma amounts:

	2005
Net income, as reported	$ 6,043,956
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(301,000)
Pro forma net income	$ 5,742,956
Earnings per share:	
Basic – as reported	$ 0.93
Basic – pro forma	0.88
Diluted – as reported	$ 0.92
Diluted – pro forma	0.87

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in fiscal 2007, 2006 and 2005, respectively; dividend yield of 4.1%, 3.6% and 3.2%; expected volatility of 21.6%, 23.3% and 22.2%; risk-free interest rate of 4.5%, 4.5% and 4.2%; and an expected life of 5 years on all options. The expected volatility is determined based on historical data. The expected life is based on the "simplified" method described in the SEC Staff Accounting Bulletin, Topic 14: Share-Based Payment.

The weighted-average grant date fair value of stock options granted during the fiscal years ended June 30, 2007, 2006 and 2005, was $2.03, $2.68 and $3.04, respectively. The cash proceeds, income tax benefit and aggregate intrinsic value of options (the amount by which the market price of the stock on the date of exercise exceeded the market price of stock on the date of grant) exercised during the fiscal years ended June 30, 2007, 2006 and 2005, respectively, was not material.

At June 30, 2007, 496,700 shares were available for future grants. It is the Company's policy to issue new shares upon exercise of stock options. The Company accepts shares of the Company's common stock as payment for exercise of options. These shares received as payment are retired upon receipt.

A summary of the status of the Company's stock option plans as of June 30, 2007, 2006 and 2005 and the changes during the years then ended is presented below:

	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (in millions)
Outstanding and exercisable at June 30, 2004	355,641	$ 16.47	$ 2.5
Granted	153,450	16.49	
Exercised	(4,595)	12.68	
Canceled	(895)	20.26	
Outstanding and exercisable at June 30, 2005	503,601	$ 16.50	$ 0.2
Granted	159,500	14.40	
Exercised	(2,000)	11.25	
Canceled	—	—	
Outstanding and exercisable at June 30, 2006	661,101	$ 16.01	$ 0.1
Granted	135,000	12.63	
Exercised	(4,427)	12.60	
Canceled	(9,500)	15.60	
Outstanding and exercisable at June 30, 2007	782,174	$ 15.45	$ 0.4

The following table summarizes information for options outstanding and exercisable at June 30, 2007:

Range of Prices	Options Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price
$ 10.30 – 11.44	26,200	3.5	$ 10.65
12.45 – 13.59	183,773	7.3	12.79
14.40 – 16.52	426,806	7.2	15.56
19.21 – 20.27	145,395	6.4	19.33
$ 10.30 – 20.27	782,174	7.0	$ 15.45

10. ACCRUED WARRANTY COSTS

The following table presents the changes in the Company's product warranty liability for the fiscal years ended June 30 (in thousands):

	2007	2006
Accrued warranty costs at beginning of year	$ 1,140	$ 1,151
Payments made for warranty and related costs	(3,558)	(3,441)
Accrual for product warranty and related costs	3,458	3,430
Accrued warranty costs at end of year	$ 1,040	$ 1,140

11. BENEFIT AND RETIREMENT PLANS

The Company sponsors various defined contribution pension and retirement plans, which cover substantially all employees, other than employees covered by multi-employer pension plans under collective bargaining agreements. It is the Company's policy to fund all pension costs accrued. Total pension and retirement plan expense was $2.0 million in each of the fiscal years 2007, 2006, and 2005. The amounts include $0.5 million in each of the fiscal years 2007, 2006 and 2005, for the Company's matching contribution to retirement savings plans. The Company's cost for pension plans is generally determined as 2% - 6% of each covered employee's wages. The Company's matching contribution for the retirement savings plans is generally 25% - 50% of employee contributions (up to 4% of employee earnings). In addition to the above, amounts charged to pension expense and contributed to multi-employer defined benefit pension plans administered by others under collective bargaining agreements were $0.9 million, $1.0 million and $1.2 million in fiscal 2007, 2006 and 2005, respectively. The cumulative cost to exit the Company's multi-employer plans was approximately $2.6 million on June 30, 2007.

The Company has unfunded post-retirement benefit and deferred compensation plans with executive officers. The plans require various annual contributions for the participants based upon compensation levels and age. All participants are fully vested. For fiscal 2007, 2006 and 2005, the benefit obligation was increased by interest expense of $0.2 million, $0.2 million and $0.1 million, service costs of $0.5 million, $0.3 million and $0.4 million, and decreased by payments of $0.5 million, $0.4 million and $0.3 million, respectively. At June 30, 2007, the benefit obligation was $5.5 million, including $0.4 million for defined benefits.

Under provisions of the Company's Voluntary Deferred Compensation Plan, executive officers may defer common stock awards received as participants of the Management Incentive Plan until retirement. Under the plan, no shares were awarded during the fiscal years ended June 30, 2007 and 2006. In fiscal 2005, the Company awarded 7,117 shares with an award value of $0.1 million based on quoted market prices at the applicable award dates that have been deferred by the plan participants. At June 30, 2007 and 2006, 60,853 shares and 68,131 shares with an award value of $0.9 million and $1.0 million, respectively, had been deferred and are being held in trust on behalf of the employees. Under the plan, 7,278 shares were redeemed in fiscal year 2007 and 2,050 shares were redeemed in fiscal year 2006.

The Company's defined benefit pension plan covers 82 active hourly production employees of DMI. There are a total of 492 participants in the plan. 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). According to an agreement reached with the collective bargaining unit, all benefits and participants are fixed. Future benefits will accrue to current participants; however, new participants cannot be added to the plan. As of June 30, 2007, the Company recorded an accrued benefit asset related to the funded status of the defined benefit pension plan recognized on the Company's balance sheet of $0.4 million and as of June 30, 2006, an accrued liability was recorded on the Company's consolidated balance sheet of $0.4 million. The accumulated benefit obligation was $4.9 million and $4.8 million at fiscal years ended June 30, 2007 and 2006, respectively.

12. COMPREHENSIVE INCOME

The components of comprehensive income, net of income taxes, for the years ended June 30, were as follows:

	2007	2006	2005
Net income	$ 9,333,987	$ 4,718,183	$ 6,043,956
Other comprehensive income (OCI):			
Change in fair value of derivatives, net of income taxes of $69,766, $(73,000) and $5,000, respectively	(168,137)	116,910	(6,810)
Change in fair value of available-for-sale, securities, net of income taxes of $(205,320), $136 and $(126,863), respectively	301,611	(221)	209,352
Change in minimum pension liability, net of income taxes of $(139,543), $(305,468) and $323,410, respectively	254,638	543,559	(550,670)
Total other comprehensive income	388,112	660,248	(348,128)
Total comprehensive income	$ 9,722,099	$ 5,378,431	$ 5,695,828

The components of accumulated other comprehensive income, net of income taxes, are as follows:

	June 30,	
	2007	2006
Available-for-sale securities	$ 1,059,191	$ 757,580
Interest rate swaps	95,033	263,170
SFAS No. 87 minimum pension liability	—	(254,638)
SFAS No. 158 transition adjustment (actuarial losses)	(44,093)	—
Total accumulated other comprehensive income	$ 1,110,131	$ 766,112

13. LITIGATION

From time to time, the Company is subject to various legal proceedings, including lawsuits, which arise out of, and are incidental to, the conduct of the Company's business. The Company does not consider any of such proceedings that are currently pending, individually or in the aggregate, to be material to its business or likely to result in a material adverse effect on its consolidated operating results, financial condition, or cash flows.

14. COMMITMENTS AND CONTINGENCIES

FACILITY LEASES – the Company leases certain facilities and equipment under various operating leases. These leases require the Company to pay the lease cost, operating costs, including property taxes, insurance, and maintenance. Total lease expense related to the various operating leases was approximately $3.6 million, $3.4 million and $2.8 million in fiscal 2007, 2006 and 2005, respectively.

Expected future minimum commitments under operating leases as of June 30, 2007 were as follows (in thousands):

Fiscal Year Ended June 30	
2008	2,504
2009	1,967
2010	997
2011	449
2012	304
Thereafter	240
	$ 6,461

15. SUPPLEMENTAL CASH FLOW INFORMATION

Non-Cash Financing Activities – During fiscal year 2006, the Company purchased delivery equipment of $2.6 million financed by a note payable. During fiscal year 2006, the Company issued 15,239 shares to settle a management incentive plan liability.

16. SEGMENTS

The Company operates in one reportable operating segment, furniture products. Our operations involve the distribution of manufactured and imported products consisting of a broad line of upholstered and wood furniture such as sofas, loveseats, chairs, reclining and rocker-reclining chairs, swivel rockers, sofa beds, convertible bedding units, occasional tables, desks, dining tables and chairs and bedroom furniture for residential, recreational vehicle, and commercial markets. The Company's furniture products are sold primarily throughout the United States by the Company's internal sales force and various independent representatives. The Company makes minimal export sales. No single customer accounted for more than 10% of net sales. The Company has no foreign manufacturing operations and all of our long-lived assets are located within the United States.

Set forth below is information for the past three fiscal years showing the Company's net sales attributable to each of the areas of application (in thousands):

FOR THE YEARS ENDED JUNE 30,		
2007	2006	2005

Residential	$ 259,710	$ 267,714	$ 261,900
Recreational Vehicle	66,165	71,981	78,838
Commercial	99,525	86,713	69,284
	$ 425,400	$ 426,408	$ 410,022

17. SUPPLEMENTARY QUARTERLY FINANCIAL INFORMATION – UNAUDITED
(in thousands of dollars, except per share amounts)

	FOR THE QUARTER ENDED			
	September 30	December 31	March 31	June 30
Fiscal 2007:				
Net sales	$ 101,340	$ 105,700	$ 104,071	$ 114,289
Gross margin	18,405	19,774	20,478	22,566
Net income (1) (2) (3)	563	1,409	1,522	5,841
Earnings per share:				
Basic	0.09	0.21	0.23	0.89
Diluted	0.09	0.21	0.23	0.89

	FOR THE QUARTER ENDED			
	September 30	December 31	March 31	June 30
Fiscal 2006:				
Net sales	$ 97,435	$ 106,301	$ 110,346	$ 112,326
Gross margin	19,143	19,703	21,366	21,127
Net income (4)	985	489	1,762	1,482
Earnings per share:				
Basic	0.15	0.07	0.27	0.23
Diluted	0.15	0.07	0.27	0.23

The sum of the per share amounts for the quarters may not equal the total for the year due to the treasury stock method.

(1) The quarter ended December 31, 2006 includes the recording of stock-based compensation expense of $0.2 million (after tax) for stock options under SFAS No. 123 (R) or $0.04 per share.

(2) The quarter ended March 31, 2007 includes a $0.4 million pre-tax gain from the sale of vacant land or $0.06 per share.

(3) The quarter ended June 30, 2007 includes a $0.6 million non-taxable gain on life insurance ($0.08 per share) and $2.5 million (after tax) gain from the sale of a property ($0.37 per share).

(4) The quarter ended December 31, 2005 includes the recording of stock-based compensation expense of $0.4 million (after tax) for stock options under SFAS No. 123 (R) or $0.06 per share.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of disclosure controls and procedures – Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-K, 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-15(e) or 15d-15(e)) under the Securities Exchange Act of 1934, as amended) were effective as of the date of such evaluation.

Changes in internal control over financial reporting – During the quarter ended June 30, 2007, there were no significant changes in the Company’s internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that has materially affected, or is reasonably likely to materially affect the Company’s internal control over financial reporting.

Management’s Annual Report on Internal Control Over Financial Reporting – Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) or 15d-15(f) of the Securities Exchange Act of 1934, as amended. Under the supervision and with the participation of management (including our Chief Executive Officer and Chief Financial Officer), we conducted an evaluation of the effectiveness of our internal control over financial reporting as of June 30, 2007, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under this framework, management concluded that

the internal control over financial reporting was effective as of June 30, 2007. Deloitte & Touche LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this Annual Report on Form 10-K, has issued an attestation report on management's assessment of the effectiveness of our internal control over financial reporting as of June 30, 2007 which is included in Item 8 of this Annual Report on Form 10-K.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Our internal control over financial reporting, however, is designed to provide reasonable assurance that the objectives of internal control over financial reporting are met.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information identifying directors of the Company, the Audit and Ethics Committee, the Audit and Ethics Committee Expert and Section 16(a) beneficial ownership reporting compliance, will be contained in the Company's fiscal 2007 definitive proxy statement to be filed with the Securities and Exchange Commission under the sections captioned "Proposal 1 Election of Directors," "Corporate Governance – Audit and Ethics Committee of the Board of Directors" and "Compliance with Section 16(a) of the Securities Exchange Act of 1934" and are incorporated herein by reference.

The Company has adopted a code of ethics called the *Guidelines for Business Conduct* that applies to the Company's employees, including the principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions. A copy of the code of ethics is posted on our website at www.flexsteel.com.

The executive officers of the Company, their ages, positions (in each case as of June 30, 2007), and the month and year they were first elected or appointed an officer of the registrant, are as follows:

Name (age)	Position (date first became officer)
Ronald J. Klosterman (59)	President & Chief Executive Officer (June 1989)
James R. Richardson (63)	Senior Vice President of Residential Sales and Marketing (November 1979)
Thomas D. Burkart (64)	Senior Vice President of Vehicle Seating (February 1984)
Patrick M. Crahan (59)	Senior Vice President of Commercial Seating (June 1989)
Jeffrey T. Bertsch (52)	Senior Vice President of Corporate Services (June 1989)
Donald D. Dreher (58)	Senior Vice President, President & CEO of DMI Furniture, Inc. (December 2004)
James E. Gilbertson (57)	Vice President of Vehicle Seating (June 1989)
Timothy E. Hall (49)	Vice President-Finance, Chief Financial Officer & Secretary (December 2000)

Each named executive officer has held the same office or an executive or management position with the Company for at least five years except Mr. Dreher who has served as President and CEO of DMI Furniture, Inc. from 1986 to present.

Item 11. Executive Compensation

The information identifying executive compensation will be contained in the Company's fiscal 2007 definitive proxy statement to be filed with the Securities and Exchange Commission under the sections captioned "Executive Compensation," "Director Compensation," and "Corporate Governance - Compensation Committee Interlocks and Insider Participation" and are incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information identifying beneficial ownership of stock and supplementary data will be contained in the Company's fiscal 2007 definitive proxy statement to be filed with the Securities and Exchange Commission under the sections captioned "Ownership of Stock By Directors and Executive Officers," "Ownership of Stock by Certain Beneficial Owners," and "Equity Compensation Plan Information" and are incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

This information will be contained under the heading "Interest of Management and Others in Certain Transactions" and "Corporate Governance – Board of Directors" in the Company's fiscal 2007 definitive proxy statement to be filed with the Securities and Exchange Commission and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Deloitte & Touche LLP was the Company's independent registered public accounting firm in fiscal 2007. In addition to performing the audit of the Company's consolidated financial statements, Deloitte & Touche LLP provided various audit-related services during fiscal 2007.

The Audit and Ethics Committee pre-approves both the type of services to be provided by Deloitte & Touche LLP and the estimated fees related to these services. The Audit and Ethics Committee reviewed professional services and the possible effect on Deloitte & Touche LLP's independence was considered. The Audit and Ethics Committee has considered and found the provision of services for non-audit services compatible with maintaining Deloitte & Touche LLP's independence. All services provided by Deloitte & Touche LLP during fiscal 2007 were pre-approved by the Audit and Ethics Committee.

The aggregate fees billed for each of the past two fiscal years ended June 30 for each of the following categories of services are set forth below:

	2007	2006
Audit Fees (1)	$ 389,000	$ 384,000
Audit Related Fees (2)	50,000	13,000
Tax Fees (3)	—	5,000
All Other Fees (4)	—	—
Total	$ 439,000	$ 402,000

(1) Professional fees and expenses for audit of financial statements and internal control over financial reporting services billed in fiscal 2007 and 2006 consisted of (i) audit of the Company’s annual consolidated financial statements; (ii) reviews of the Company’s quarterly consolidated financial statements; (iii) consents and other services related to Securities and Exchange Commission matters; and (iv) consultations on financial accounting and reporting matters arising during the course of the audit and reviews.

(2) Professional fees and expenses for audit-related services billed in fiscal 2007 and 2006 consisted of employee benefit plan audits, $31,000 and $13,000, respectively, and $19,000 in fiscal 2007 for other SEC-related matters.

(3) Professional fees and expenses for tax services billed in fiscal 2006 consisted of tax planning and advice services totaling $5,000 and consisted of (i) tax advice related to structuring certain proposed transactions; and (ii) general tax planning matters.

(4) No other professional services were provided during fiscal 2007 and 2006.

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) (1) Financial Statements

The financial statements of the Company are set forth above in Item 8.

(2) Schedules

The following financial statement schedules for the years ended June 30, 2007, 2006 and 2005 are submitted herewith:

SCHEDULE II

RESERVES

For the Years Ended June 30, 2007, 2006 and 2005

Description	Balance at Beginning of Year	Additions Charged to Income	Deductions from Reserves	Balance at End of Year
Allowance for Doubtful Accounts:				
2007	**$ 2,820,000**	**$ 0**	**$ (730,000)**	**$ 2,090,000**
2006	**$ 3,060,000**	**$ 850,000**	**$ (1,090,000)**	**$ 2,820,000**
2005	**$ 2,820,000**	**$ 1,140,000**	**$ (900,000)**	**$ 3,060,000**

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

(3) Exhibit No.

3.1 Restated Articles of Incorporation by reference to Exhibit No. 8 to the Registrant’s Annual Report on Form 10-K for the fiscal year ended

June 30, 1988.

3.2 Amendment to Restated Articles of Incorporation filed on January 15, 1993.

3.3 Amendment to Restated Articles of Incorporation filed on February 14, 2007. Filed herewith.

3.4 Bylaws of the Registrant incorporated by reference to Exhibit No. 7 to the Annual Report on Form 10-K for the fiscal year ended June 30, 1993.

3.5 Amendments adopted on June 4, 2007 to Restated Bylaws of Flexsteel Industries, Inc. incorporated by reference to Exhibit 3.1 to Flexsteel's 8-K filed with the Securities, and Exchange Commission on June 8, 2007.

10.1 1995 Stock Option Plan incorporated by reference from the 1995 Flexsteel definitive proxy statement. *

10.2 Management Incentive Plan incorporated by reference from the 1980 Flexsteel definitive proxy statement - commission file #0-5151.*

10.3 1999 Stock Option Plan incorporated by reference from the 1999 Flexsteel definitive proxy statement.*

10.4 Flexsteel Industries, Inc. Voluntary Deferred Compensation Plan incorporated by reference to Exhibit No. 10.5 to the Annual Report on Form 10-K for the fiscal year ended June 30, 2001. *

10.5 Flexsteel Industries, Inc. Restoration Retirement Plan incorporated by reference to Exhibit No. 10.6 to the Annual Report on Form 10-K for the fiscal year ended June 30, 2001. *

10.6 Flexsteel Industries, Inc. Senior Officer Supplemental Retirement Plan incorporated by reference to Exhibit No. 10.7 to the Annual Report on Form 10-K for the fiscal year ended June 30, 2001. *

10.7 2002 Stock Option Plan incorporated by reference to Appendix A from the 2002 Flexsteel definitive proxy statement. *

10.8 Agreement and Plan of Merger, dated as of August 12, 2003, by and among Flexsteel, Churchill Acquisition Corp. and DMI (incorporated by reference to Exhibit 99(d)(1) of Flexsteel Industries, Inc.'s Tender Offer Statement on Schedule TO filed with the Securities and Exchange Commission on August 20, 2003) incorporated by reference to Form 8-K and Amendments No. 1 to Form 8-K, as filed with Securities and Exchange Commission on October 2, 2003.

10.9 Credit Facility Agreement dated June 30, 2004 as amended or modified on June 10, 2005, August 19, 2005, December 23, 2005, January 3, 2006, and May 19, 2006 incorporated by reference to Exhibit 10.9 to Flexsteel Industries, Inc. Annual Report on Form 10-K for the fiscal year ended June 30, 2006.

10.10 Flexsteel Industries, Inc. 2006 Stock Option Plan incorporated by reference to Appendix C from the 2006 Flexsteel Proxy Statement filed with the Securities, and Exchange Commission on October 31, 2006.

10.11 Note Modification Agreement date June 25, 2007 (long-term facility) between Flexsteel Industries, Inc. and JPMorgan Chase Bank, N.A. incorporated by reference to Exhibit 10.1 to Flexsteel's Form 8-K filed with the Securities and Exchange Commission on June 26, 2007.

10.12 Note Modification Agreement date June 25, 2007 (short-term facility) between Flexsteel Industries, Inc. and JPMorgan Chase Bank, N.A. incorporated by reference to Exhibit 10.1 to Flexsteel's Form 8-K filed with the Securities and Exchange Commission on June 26, 2007.

10.13 Credit Agreement date June 25, 2007 between Flexsteel Industries, Inc. and JPMorgan Chase Bank, N.A. incorporated by reference to Exhibit 10.3 to Flexsteel's Form 8-K filed with the Securities and Exchange Commission on June 26, 2007.

10.14 Employment Agreement dated October 1, 2006 between Flexsteel Industries, Inc. and Donald D. Dreher incorporated by reference to Exhibit 10.1 to Flexsteel's Form 8-K filed with the Securities, and Exchange Commission on October 5, 2006. *

21.1 Subsidiaries of the Company. Filed herewith.

23 Consent of Independent Registered Public Accounting Firm. Filed herewith.

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. Filed herewith.

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. Filed herewith.

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. Filed herewith.

99.1 Report of Independent Registered Public Accounting Firm. Filed herewith.

*Management contracts, compensatory plans and arrangements required to be filed as an exhibit to this report.

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

Date: August 29, 2007

FLEXSTEEL INDUSTRIES, INC.

By: */S/ Ronald J. Klosterman*
Ronald J. Klosterman
Chief Executive Officer
and
Principal Executive Officer

By: */S/ Timothy E. Hall*
Timothy E. Hall
Chief Financial Officer
and
Principal Financial Officer

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

Date: August 29, 2007

/S/ L. Bruce Boylen
L. Bruce Boylen
Chairman of the Board of Directors

Date: August 29, 2007

/S/ Ronald J. Klosterman
Ronald J. Klosterman
Director

Date: August 29, 2007

/S/ Jeffrey T. Bertsch
Jeffrey T. Bertsch
Director

Date: August 29, 2007

/S/ Mary C. Bottie
Mary C. Bottie
Director

Date: August 29, 2007

/S/ Patrick M. Crahan
Patrick M. Crahan
Director

Date: August 29, 2007

/S/ Lynn J. Davis
Lynn J. Davis
Director

Date: August 29, 2007

/S/ Robert E. Deignan
Robert E. Deignan
Director

Date:	August 29, 2007	*<u>/S/ Thomas E. Holloran</u>* Thomas E. Holloran *Director*
Date:	August 29, 2007	*<u>/S/ Eric S. Rangen</u>* Eric S. Rangen *Director*
Date:	August 29, 2007	*<u>/S/ James R. Richardson</u>* James R. Richardson *Director*

Exhibit 3.3

THE 1983 RESTATED ARTICLES OF INCORPORATION OF
FLEXSTEEL INDUSTRIES, INC.,
AS AMENDED THROUGH FEBRUARY 14, 2007

ARTICLE I

The name of this corporation is Flexsteel Industries, Inc.

ARTICLE II

This corporation shall have general business purposes and shall have unlimited power to engage in and do any lawful act concerning any and all lawful activity for which corporations may be organized and may conduct business under M.S.A. 302A. Without limiting the generality of the foregoing, its further purposes are:

a) To manufacture, purchase, import, or otherwise acquire, repair, work with, invest in, own, mortgage, pledge, sell, assign, and transfer, export or otherwise dispose of , trade, deal in and deal with all types of seating, furniture, household goods, appliances, and any and all other goods, wares, merchandise, trademarks, tradenames, patent rights, copyrights, inventions and personal property of every class and description; to undertake, conduct, manage, assist, promote, and to engage or participate in every kind of research or scientific, experimental design or developmental work, including pure or basic research; to purchase, develop, operate, sell, encumber and otherwise dispose of real estate and personal property within the State of Minnesota and anywhere else in and on the planet Earth and in and on the Moon and in and on other heavenly, bodies;

b) To acquire by purchase, exchange, subscription or otherwise, and to hold, own, mortgage, pledge, hypothecate, sell, assign, transfer, exchange, or otherwise dispose of or deal in or with, securities (which term, for purposes of this Article II, includes without limitation, any shares of stock, bonds, debentures, notes, mortgages, or other obligations, and any certificates, receipts or other instruments representing rights to receive, purchase or subscribe for the same, or representing any other rights or interests therein or in any property or assets) created or issued by this corporation or other persons, firms, associations, corporations or instrumentalities thereof; foreign or domestic and to deal in and with commodities, bullion, coin, foreign exchange, currencies, royalties and property of every kind and nature;

c) To make payment therefore in any lawful manner or to issue in exchange therefore its own securities; and to exercise, as owner or holder of any securities, any and all rights, powers and privileges in respect thereof;

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d) To acquire by purchase, exchange or otherwise, all, or any part of, or any interest in, the properties, assets, business and goodwill of any one or more persons, firms, associations, or corporations and to pay for the same in cash, property, obligations or otherwise; to buy its own or other securities and to hold, operate, reorganize, liquidate, mortgage, pledge, sell, exchange, or in any other manner deal in or with or dispose of the whole or any part thereof; and in connection therewith, to become surety for and/or to assume or guarantee performance of any liabilities, obligations, or contracts of such persons, firms, associations, or corporations and to conduct in any lawful manner the whole or any part of any business thus acquired;

e) To enter into one or more partnership agreements or one or more joint venture agreements with any other person, firm or corporation;

f) To become surety for or guarantee the carrying out and performance of any contract, lease or obligation of any kind of any person, firm or corporation in connection with the carrying on of any business which, in the judgment of the Board of Directors of this corporation, will be of benefit to this corporation;

g) And in connection with its business and all the powers heretofore expressed, to do any and all things necessary or incident thereto or advisable therewith and to conduct its business and exercise all the above powers without consent, permission or vote of the shareholders.

ARTICLE III

The address of the registered office* of the corporation in the State of Minnesota is:

Flexsteel Industries, Inc.
4900 IDS Tower
80 South Eighth Street
Minneapolis, Minnesota 55402

The registered agent** at that address is:

Peter F. Walstad, Attorney

*In 1994, changed to Flexsteel Industries, Carlson Center, Suite 1050, 601 Lakeshore Parkway, Minnetonka, MN 55305.

**In 1994, changed to Irving C. MacDonald

ARTICLE IV

The aggregate number of authorized shares of Capital Stock of this corporation is 15,760,000 shares.

A. $50.00 PAR CUMULATIVE PREFERRED SHARES

Sixty thousand (60,000) of such shares shall be Cumulative Preferred Shares of the Par Value of $50.00 each.

1) The holders of the $50.00 Par Cumulative Preferred Shares, in preference to the holders of $1.00 Par Value Preferred Shares, shall be entitled to receive, as and when declared by the Board of Directors out of any funds legally available therefore, cash dividends at the annual cumulative rate set by the Board of Directors at the time the shares are issued.

2) The Board of Directors is authorized to designate series within the $50.00 Par Cumulative Preferred Share classification based upon different annual cumulative dividend rates. The Board or Directors is authorized to set the dividend rate at the time the series is established but the rate shall not exceed the average Prime Rate of the major banks in the Minneapolis-St. Paul area at that time.

No dividends shall be paid on the Common Shares or on the $1.00 Par Value Preferred Shares at any time when there are any accrued cumulative dividends on the $50.00 Par Cumulative Preferred Shares unpaid. Preferred dividends shall be paid quarterly. The $50.00 Par Cumulative Preferred Shares shall not participate in any dividends or distributions of any nature except to the extent stated herein. $50.00 Par Cumulative Preferred Shares shall be callable at any time at the option of the corporation at $50.00 per share plus accrued unpaid dividends to the date of call plus future dividends figured 30 days beyond the call date.

3) In the event of any dissolution, liquidation or winding up of the affairs of the corporation, the $50.00 Par Cumulative Preferred Shares shall receive out of the assets of the corporation the $50.00 par value thereof plus accrued unpaid dividends, before any distribution is made to the Common Shares or to the $1.00 Par Value Preferred Shares.

4) Shares of $50.00 Par Cumulative Preferred Shares shall be issued only as fully paid and non-assessable shares.

5) At any time when there are two (2) years' cumulative dividends on the $50.00 Cumulative Preferred Shares unpaid, each $50.00 Par Cumulative Preferred Share shall automatically entitle its holder to participate fully in all common shareholder matters and at all common shareholder meetings. Each $50.00 Par Cumulative Preferred entitles the holder to vote 50 votes per share on all matters submitted to the vote of the common shareholders (including the election of Directors). Each common share shall be entitled to one vote.

6) In order to protect the $50.00 Par Cumulative Preferred shareholders, whether or not the cumulative dividends on the $50.00 Par Cumulative Preferred Shares are paid currently, each $50.00 Par Cumulative

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Preferred Share entitles the holder to vote 50 votes per share at all shareholder meetings on any of the following issues:

a) amending the Articles of Incorporation;

b) all matters set forth in Article VII (mergers, sale of assets, reclassification of shares, dissolution of the corporation, etc.).

7) The holders of $50.00 Par Cumulative Preferred Shares shall have no preemptive right to subscribe for any shares of stock of any class issued by the corporation and the voting rights of the $50.00 Par Cumulative Preferred Shares shall not be cumulative.

B. $1.00 PAR VALUE PREFERRED SHARES

Seven hundred thousand (700,000) shall be $1.00 Par Value Preferred Shares of the par value of $1.00 each.

The designations, relative rights, voting power, preferences and restrictions of the shares of $1.00 Par Value Preferred Shares, including the express grant of authority to the Board of Directors in connection therewith, are as follows:

1) The $1.00 Par Value Preferred Shares shall be junior and subordinate to the $50.00 Par Cumulative Preferred Shares, and the Common Shares shall be junior and subordinate to both the $50.00 Cumulative Preferred Shares and the $1.00 Par Value Preferred Shares.

2) Shares of $1.00 Par Value Preferred Shares may be issued from time to time in one or more series, each of which series shall have such designation, and dividend rights, relative rights, voting power, preferences and restrictions as are hereinafter

provided and, to the extent hereinafter permitted, as are determined and stated by the Board of Directors in the resolution or resolutions authorizing the creation of shares of such series.

3) Shares of $1.00 Par Value Preferred Shares shall be issued only as fully paid and non-assessable shares.

4) Authority is hereby expressly granted to the Board of Directors to authorize and issue $1.00 Par Value Preferred Shares in one or more series and to determine and state, by the resolution or resolutions authorizing the creation of each series:

i) the designation of the series and the number of shares which shall constitute such series, which number may be altered from time to time by like action of the Board of Directors in respect of shares then unallotted;

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ii) the annual rate of dividends payable on shares of such series and if the dividends are cumulative;

iii) the price or prices per share and the time or times at which the shares of such series shall be or may be called or redeemable and the terms on which the shares of such series shall be or may be called or redeemed.

iv) the amounts payable on shares of such series in the event of any dissolution, liquidation or winding up of the affairs of the corporation, which amounts may differ in the case of a voluntary or involuntary dissolution or winding up of such affairs;

v) the provisions, if any, relating to any sinking fund or purchase fund with respect to shares of such series;

vi) the rights, if any, of conversion of shares of such series into or in exchange for shares of any other class or classes or of any other series of the same or other class or classes of the stock of the corporation and at such price or prices or at such rates of exchange and with such adjustments as is determined;

vii) the voting or non-voting rights and if voting, the number of votes per share which shall not exceed two but subject to the required voting rights given the shareholders in Articles VII and XI which Articles control in the event of a conflict;

viii) any other rights, preferences and if voting, the number of votes per share which shall not exceed two;

5) The $1.00 Par Value Preferred Shares are senior to the Common Shares upon liquidation of the corporation. No dividends shall be paid on the Common Shares if there is any arrearages on the $1.00 Par Value Preferred Share dividends.

6) Subject to the provisions in Article IV, A., dividends may be declared by the Board of Directors and paid from time to time, out of any funds legally available therefore, upon the then outstanding shares of $1.00 Par Value Preferred Shares of the corporation.

7) In the event of any dissolution, liquidation, or winding up of the affairs of the corporation, before any distribution of payment shall be paid to the holders of any class of shares ranking junior to the $1.00 Par Value Preferred Shares, the holders of the $1.00 Par Value Preferred Shares shall be entitled to be paid an amount equal to the value set by the Board of Directors in the resolution or resolutions authorizing the series, together with a sum of money equivalent to the amount of unpaid dividends thereon.

8) The consolidation or merger of the corporation into or with any other corporation or corporations shall not be deemed a liquidation, dissolution

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or winding up the affairs of the corporation within the meaning of any of the provisions of this Article IV.

9) The holders of $1.00 Par Value Preferred Shares shall have no preemptive right to subscribe for any shares of stock of any class issued by the corporation and the voting rights of the $1.00 Par Value Preferred Shares shall not be cumulative.

C. <u>COMMON SHARES</u>

Fifteen million (15,000,000) shall be Common Shares par value $1.00 each, subject to all prior provisions in Article IV herein. Each Common Share is entitled to one vote.

1) Subject to Article IV, dividends may be declared by the Board of Directors and paid from time to time, out of any funds legally available therefore, upon the then outstanding Common Shares of the Corporation and the holders of the $50.00 Par Cumulative Preferred Shares and the $1.00 Par Value Preferred Shares shall not be entitled to participate in any such dividends.

2) The holders of Common Shares of $1.00 Par Value shall have no preemptive right to subscribe for any shares of stock of any class issued by the corporation and the voting rights of the Common Shares shall not be cumulative.

D. WARRANTS, RIGHTS, OPTIONS

The corporation is hereby expressly authorized and empowered, from time to time, by resolution of its Board of Directors, without shareholder approval, to authorize and issue, whether or not in connection with the issue and sale of any shares of stock or other securities of the corporation, warrants, rights or options entitling the holders or owners thereof to purchase or acquire from the corporation any shares of its Common Stock, $50.00 Par Cumulative Preferred Shares, $1.00 Par Value Preferred Shares and/or any series thereof or other securities, whether now or hereafter authorized. Such rights or options shall be evidenced by or in such warrants or other instruments as shall be approved by the Board of Directors. The terms upon which, the time or times which may be limited or unlimited in duration at or within which, and the price or prices at which any such shares or other securities may be purchased or acquired from the corporation

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upon the exercise of any such rights or options shall be such as shall be fixed in a resolution or resolutions adopted by the Board of Directors providing for the authorization and issuance of such rights or options, and set forth or incorporated by reference in the warrants or other instruments evidencing such rights or options. The Board of Directors is hereby authorized and empowered to authorize and issue any such rights or options and any such warrants or other instruments from time to time, for such consideration as the Board of Directors may determine. Any and all shares of stock which may be purchased or acquired or issued upon the exercise of any such right or option, shall be deemed fully paid stock and not liable to any further call or assessment thereon, or partly paid and liable to further call or assessment, as the terms of the warrants or other instruments evidencing such rights or options shall provide. Except as otherwise provided by law, the Board of Directors shall have full power and discretion to prescribe and regulate from time to time the procedure to be followed in, and all other matters concerning the issuance and exercise of any such rights and options and such warrants or other instruments, and the setting aside of stock or other securities for the purpose thereof, and the issuance of such stock or other securities upon the exercise thereof.

ARTICLE V

BOARD OF DIRECTORS

A) Number

The number of directors shall be set by the Board but shall not be less than seven (7) nor more than thirteen (13). The Board to be elected at the 2006 Annual Meeting of Shareholders shall consist of eleven (11) directors. Thereafter, the number of directors may be increased or decreased only by the affirmative vote of a majority of Directors then in office at the time of the vote but subject to the above stated minimum of seven (7) and maximum of thirteen (13) directors.

The Board of Directors shall consist of six (6) directors until changed by resolution of the Board. If there is a decrease in the number of Directors, the reduction in number will first apply to remove any vacancy, if any, existing at the time of the decrease. The decrease shall next apply to remove a seat upon the expiration of the term of a Director then sitting. No Director shall be removed during his term of office through a decrease in the size of the Board. Directors need not be a resident of the State of Minnesota nor a shareholder of the corporation.

B) Classification

Presently, the Board of Directors is fixed at six (6). The Board of Directors is hereby divided into three classes of two directors each. At the 1983 Annual Meeting of Shareholders, the directors of the First Class shall be elected for a term expiring at the 1984 Annual Meeting of Shareholders; the directors of the Second Class for a term expiring at the 1985 Annual Meeting of Shareholders; and the directors of the Third Class for a term expiring at the 1986 Annual

Meeting of Shareholders. At each Annual Meeting thereafter, successors to those directors whose terms expire at that time will be elected to three-year terms. The term of office of one of the above classes of directors shall expire each year.

At each Annual Meeting, the directors chosen to succeed those whose terms then expire shall be identified as being of the same class as the directors they succeed. If, as the result of an increase or decrease in the number of directors, the class sizes are not equal, then the classes may be equalized, if possible, by a resolution of the Board of Directors, passed by an affirmative vote of a majority of the Directors then in office at the time of such vote. The resolution may designate any single director into another class of directors such that the seat class sizes may be as nearly equal as possible.

C) Notice of Nominations

1) Nominations for the election of directors may be made by the Board or by any shareholder entitled to vote for the election of directors. Such nominations by shareholders, if the nominations are to be made from the floor of the meeting of shareholders called for the election of Directors without being included in proxy material sent prior thereto to the shareholders, shall be made by notice in writing, delivered or mailed by first class United States Mail, postage prepaid, to the Secretary of the Corporation and actually received by the Secretary, not less than 18 days nor more than 50 days prior to the day of any meeting of the shareholders called for the election of directors; provided, however, that if less than 21 days' notice of the meeting is given to shareholders by the Corporation, such written notice by shareholders shall be delivered or mailed by first class mail, but actually received by the Secretary of the Corporation not later than the close of the sixth day following the day on which notice of the meeting was mailed to shareholders by the Corporation.

Nominations proposed by a majority of the Board of Directors are exempted from the formal written notice requirements set forth above.

2) The notice under 1) above shall set forth:

a) the name, age, business address and if known, residence address of each nominee proposed in such notice;

b) the principal occupation or employment of each such nominee;

c) the number of shares of stock of the corporation which are beneficially named by each such nominee.

3) The Chairman of the meeting, in his sole discretion and without recourse, may determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, if the facts warrant, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

D) Vacancies

Any vacancy occurring in the Board of Directors may be filled only by a resolution of the Board of Directors passed by the affirmative vote of a majority of the Directors then in office at the time of such vote, even though less than a quorum of the full Board of Directors. A director elected to fill a vacancy shall be elected for the unexpired portion of the term of his predecessor in that class.

Any directorship to be filled by reason of an increase in the number of Directors set by the Board shall be filled only by a resolution of the Board of Directors passed by

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the affirmative vote of a majority of the Directors then in office at the time of such vote even through less than a quorum of the full Board of Directors. A director elected to fill a newly created directorship shall be elected for the unexpired portion of the term in the class to which such Director is assigned. The Board of Directors, in its sole discretion, reserves the right to designate the class to which such newly created directorship shall belong but the Directors shall make all classes as nearly equal in number as possible.

E) Removal of Directors

a) By Shareholders

A Director may be removed by the shareholders only for cause, as defined in c) below, and then only by a resolution passed by the affirmative vote of two thirds (2/3rd's) of all the votes cast on this issue. Shareholders that withhold their vote or abstain from voting shall not be counted as voting.

b) <u>By Directors</u>

A Director may be removed by the Directors only for cause, as defined in c) below, and then only by a resolution passed by the affirmative vote, in person, or by a Director's consent if a Director is absent, of at least two-thirds (2/3rd's) of the Directors then in office. For voting purposes only, the Director whose removal is being voted upon shall not be counted as being in office. Said Director is disqualified from voting on the resolution.

c) As used in this Article V, the meaning of "cause" shall be limited to malfeasance arising from the performance of a Director's duties which has a materially adverse effect on the business of the corporation.

F) <u>Limiting Liability of Directors</u>

The liability of the Directors of the corporation to the corporation and/or to its Shareholders is hereby eliminated to the fullest extent permitted by the Minnesota Business Corporation Act, other applicable statutory and case law, as all the

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aforementioned now exists or hereafter, from time to time, may be changed, amended or supplemented. Any repeal, change or amendment affecting this section (Article V F) or to the law referred to herein, shall not apply to, eliminate, reduce or adversely affect any rights or protection of a Director, existing prior to such repeal, change or amendment.

G) <u>Indemnification (amended)</u>

The Corporation shall indemnify its former and present Directors, Officers and Members of Committees of the Board of Directors at Flexsteel, and one who at the request of Flexsteel is serving as a Director or Officer of another corporation, partnership, joint venture, trust or other enterprise including employee benefit plans; and may indemnify one who at the request of Flexsteel is serving as an Employee, Partner, Trustee, Fiduciary, Agent, Attorney or in any other capacity of another corporation, partnership, joint venture, trust or other enterprise including employee benefit plans, and one who is serving Flexsteel as an Other Person such as Employee, Partner, Trustee, Agent, Attorney, Fiduciary, or in any other capacity (all the above hereinafter called Indemnitees) for actions undertaken or omitted in such Capacity to the fullest extent permitted by the Minnesota Business Corporations Act, other applicable statutory and case law (the Law), as all the foregoing now exists or hereafter, from time to time, may be changed, amended or supplemented. The indemnification shall inure to the benefit of the person, the person's heirs, legal representatives and administrators.

If the Indemnitee institutes a Proceeding against the Corporation, the Indemnitee shall not be entitled to indemnification unless the Corporation has first consented in writing to the proceedings prior to its commencement by the Indemnitee.

In furtherance thereof said Corporation is authorized, but shall not be required, to enter into Contracts and Agreements with any Indemnitee providing for indemnification and for the advancement and reimbursement of attorneys' fees and disbursements,

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judgments, penalties, fines, excise taxes, other disbursements, amounts paid in settlement and other expenses of every kind and nature (Expenses) – all to the fullest extent permitted by the Law. The Corporation's failure to do so shall in no manner affect or limit the rights provided for in this section (Article V G) or otherwise.

The maximum aggregate amount of indemnity payable by the Corporation to all Indemnitees arising out of the same occurrence regardless of how many claims or people are involved is five million dollars in 1987 constant dollars on over and above all insurance paid.

Any repeal, change, or amendment affecting this section (Article V G) or to the Minnesota Business Corporation Act or other applicable statutory and case law, shall not apply to eliminate, reduce or adversely affect any rights or protection of an Indemnitee existing prior to such repeal, change or amendment but to the extent that a Law change permits the Corporation to provide greater or broader rights or protection, the Law shall apply retroactively to the effective date of this Article V G).

The Corporation may purchase and maintain insurance for and an behalf of any person that the Corporation Shall or May Indemnify.

After approval of this "Article V G) *Indemnification*" by the Shareholders and its filing with the Secretary of State of Minnesota, Article IX former subsection G. of the 1983 Restated Articles of Incorporation shall become null and void.

ARTICLE VI

The shareholders of all classes of shares of this corporation shall:

i) have no right to cumulate votes for the election of Directors or otherwise;

ii) have no preemptive rights to subscribe for, or purchase, or acquire any part of any class or series of shares or securities of this corporation now or hereafter made.

No action required to be taken or which may be taken at any annual meeting or special meeting of shareholders of this corporation may be taken without a meeting. The power of shareholders to consent in writing, without a meeting, to the taking of any action is specifically denied.

A stockholders' quorum consists of the holders of a majority of the shares entitled to vote at the meeting .

ARTICLE VII

Except as excepted in this Article VII, the affirmative vote of two-thirds (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 Value Preferred Shares and the outstanding $1.00 Par Value Preferred Shares, voting together and for this purpose considered one class, (shareholders that withhold their vote or abstain from voting shall not be counted as voting), shall be required for:

i) the merger or consolidation of this corporation into any business combination (as hereinafter defined).

ii) the merger or consolidation of any business combination with or into this corporation other than in the "course of business" of this corporation (as hereinafter defined).

iii) the sale, lease, exchange, transfer or other disposition (including without limitation a mortgage or any other security device) of a major portion of the property and assets of this corporation to any business combination, and/or the distribution of a major portion of the property and assets of this corporation in liquidation or pursuant to a plan of liquidation.

iv) the sale, lease, exchange, transfer or other disposition of all or a substantial part of the assets of any business combination to this corporation other than in the "course of business" of this corporation.

v) the acquisition by this corporation of any security of any business corporation other than in the "course of business" of this corporation.

vi) the reclassification of the shares of this corporation or any recapitalization involving said shares.

vii) the making of a major change in this corporation's business or equity capital structure other than in the "course of business" of this corporation.

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viii) the purchase by this corporation of the shares of this corporation possessing voting rights in elections for Directors other than in the "course of business" of this corporation.

ix) the dissolution of this corporation.

Business combination means any individual, corporation, firms, partnership, joint venture, associations, governmental identity, or other person or legal entity.

Corporation means the corporation and any subsidiary thereof.

Course of business means the doing of business as defined from time to time by a majority of the full Board of Directors. It does not mean a takeover or attempted takeover of this corporation, or its management or its Board of Directors, directly or indirectly.

ARTICLE VIII

The Board of Directors of the corporation, when evaluating any proposal of another party consisting of: (a) a takeover, tender or exchange offer of any security of this corporation, or (b) a merger or consolidation of this corporation with another corporation or entity, or (c) the purchase or otherwise acquisition of all or a major portion of the properties and assets of this corporation, shall, in connection with the exercise of its judgment in determining what is in the best interests of the corporation and its shareholders, give due consideration to all relevant factors, including without limitation, the social, economic and other effects on the employees, customers, suppliers and other constituents of this corporation and on the communities in which this corporation operates or is located.

In evaluating proposals the Directors may retain special outside legal counsel, investment banking firms, special accounting firms and such other experts as they, in their discretion, deem necessary or appropriate to assist them in their evaluation of the transaction, all at the expense of the corporation.

ARTICLE IX

The property, business and affairs of the corporation shall be managed and controlled by the Board of Directors.

The Board of Directors is governed by the statutes, the Articles of Incorporation and their amendments and restatements and the By-Laws of the corporation. Subject to these Restated Articles of Incorporation, the Bylaws shall define a quorum and set the percentage vote for an action by the Board.

In furtherance, and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized without shareholder approval or consent:

A. To allot, authorize, issue and set the value of the authorized but unissued shares of this corporation, as well as to allot, authorize, issue and set the value and terms of warrants, including the declaration of dividends payable in shares of any class to shareholders of any other class if not prohibited elsewhere in these Articles;

B. To fix the terms, provisions, and conditions of and authorize the issue, sale, pledge or exchange of bonds, debentures, notes and evidences of indebtedness;

C. To fix the terms, provisions, and conditions of and authorize the issue, sale or exchange of (i) rights to convert any securities of this corporation into shares of any class or classes, including the conversion basis or bases; and (ii) options to purchase or subscribe for shares of any class or classes, including the option price or prices at which shares may be purchased or subscribed for;

D. To make, alter, amend, rescind and repeal a By-Law or By-Laws of the corporation. The By-Laws or any By-Law may also be made, altered, amended or rescinded or repealed by the shareholders upon the affirmative vote of two-thirds (2/3rd's) of all the shares voting on this issue, of the aggregate voting power of all the outstanding Common Shares and all the outstanding $50.00 Par Cumulative Preferred Shares and all the outstanding $1.00 Par Value Preferred Shares (if this right is specifically included in the $1.00 Par Value Preferred Shares' preference and rights when the class or series is created by the Board of Directors) all voting together and for this purpose considered one class. If a resolution or motion to make, alter, amend, rescind, or repeal a By-Law or By-Laws is to be made from the floor of a shareholder's meeting without being in the proxy materials sent prior thereto to the shareholders, then notice in writing, delivered or mailed by first class United States mail, postage prepaid to the Secretary of the corporation and actually received by the Secretary, not less than 18 days nor more than 50 days prior to the day of the meeting of the shareholders at which said resolution or motion shall be made; provided, however, that if less than 21 days' notice of the meeting is given to shareholders

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by the corporation such written notice shall be delivered or mailed by first class mail, but actually received, by the Secretary of the corporation, not later than the close of the sixth day following the day on which notice of the meeting was mailed to shareholders by the corporation.

Said motion or resolution if proposed by a majority of the Board of Directors is exempted from the formal written notice requirement set forth above.

E. To elect all senior and policy making officers and arrange for the appointment and employment of all other officers and employees. To designate the duties and responsibilities of all senior and policy making officers and arrange for the designation of the duties and responsibilities of all other officers and employees;

F. To provide for the reasonable compensation of its own members in their status as directors, officers and employees, and all other officers and employees, including but not limited to, salaries, pension, profit-sharing, retirement benefits, cash bonuses, stock options, stock purchase, stock bonuses, and deferred payment and compensation plans, trusts, and other provisions, and all other forms of incentive and compensation;

G. To adopt indemnity plans and to purchase and maintain insurance for officers, directors, employees, and agents of this corporation or of another enterprise if such are serving at the request of this corporation, against liability asserted against them and incurred in any such capacity or arising out of their status as such, to the fullest extent now or hereafter permitted by law.

H. To take written action signed by two-thirds (2/3rd's) of the entire Board of Directors. (See 302A.239)

I. By two-thirds (2/3rd's) affirmative vote of the Board, to designate two or more of its members to constitute an executive committee, which, to the extent determined by the Board, shall have and exercise the authority of the Board in the management of the business of the corporation;

J. To make and carry into effect acquisitions of all types and descriptions, subject only to the provisions of these Restated Articles of Incorporation and By-Laws of this corporation;

K. In addition, to exercise all powers and to do such acts that may be exercised or done by this corporation and authorized under these Restated Articles of Incorporation.

L. Anti-Greenmail

1.) *Vote Required:*

Except as set forth in L.2.) herein, in addition to any affirmative vote of the Stockholders required by the Restated Articles of Incorporation or law, any direct or indirect purchase or agreement to purchase or the otherwise acquisition by the Corporation or any Subsidiary of any Equity Security (as defined herein) from any Interested Person (as defined herein) who has Owned or Beneficially Owned (as

defined herein) such Equity Security for less than three years prior to the date of such direct or indirect purchase or agreement to purchase or the otherwise acquisition thereof by the Corporation or any Subsidiary, shall require the affirmative vote of two-thirds (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 value Cumulative Preferred Shares and the Outstanding $1.00 par value Preferred Shares all voting together and for this purpose considered one class, Shareholders that withhold their vote or abstain from voting shall not be counted as voting. Such affirmative vote shall be required notwithstanding the fact that no vote may be required, or a lesser percent may be specified, by law or any agreement with any national securities exchange or otherwise.

2.) *Vote Not Required:*

The provisions of section L.1.) herein shall not be applicable with respect to:

(a) any purchase or other acquisition of Equity Securities made as part of a tender or exchange offer by the Corporation to purchase Equity Securities of the same class made on the same terms to *all* holders of such Equity Securities and complying with the applicable requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations thereunder (or any subsequent provisions replacing such Act, rules or regulations);

(b) any purchase or acquisition at no more than Market Price by the Corporation made pursuant to an open market purchase program which is approved by the vote of a majority of the Directors then in office; or

(c) any purchase or acquisition by the Corporation which is approved by the vote of a majority of the Directors then in office and which is made at no more than the Market Price (as defined in Section L.3. herein) on the date that the understanding between the Corporation and the Interested Person is reached with respect to such purchase (whether or not such purchase is made or a written agreement relating to such purchase is executed on such date), of shares of the class of Equity Security to be purchased.

3.) *Certain Definitions:*

(a) "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Exchange Act, as in effect on January 1, 1987.

(b) "Beneficial Owner" and "Beneficial Ownership" shall have the meanings ascribed to such terms in Rule 13d-3 and Rule 13d-5 of the General Rules and Regulations under the Exchange Act, as in effect on January 1, 1987.

(c) “Equity Security” shall mean any Outstanding Company security described in Section 3a11-1 of the Exchange Act, as in effect on January 1, 1987, which is traded on a national securities exchange or NASDAQ National Market System.

(d) “Interested Person” shall mean any person (other than the Corporation or any Subsidiary, any employee benefit plan maintained by the Corporation or any Subsidiary or any trustee of, or fiduciary with respect to, any such plan when acting in such capacity) that is the direct or indirect Beneficial Owner of more than 3% of the Outstanding Voting Shares, and any Affiliate or Associate of any such person. For the purpose of determining whether a Person is an Interested Person, the Outstanding Voting Shares shall include unissued shares of voting stock of the Corporation of which the Interested Person is the Beneficial Owner but shall not include any other shares of voting stock of the Corporation which may be issuable pursuant to an agreement arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise, to any Person who is not the Interested Person.

(e) “Market Price” of shares of a class of Equity Security on any day shall mean the highest sale price of shares of such class of Equity Security on such day, or, if that day is not a trading day of such shares, on the trading day of such shares immediately preceding such day, on the national securities exchange or the NASDAQ National Market System on which such class of Equity Security is traded.

(f) “Person” shall mean any individual, partnership, firm, corporation, association, trust, unincorporated organization or other entity, as well as any syndicate or group deemed to be a person pursuant to Regulation 14C, Schedule 14C Section 14(d)(2) of the Exchange Act, as in effect on January 1, 1987.

(g) “Subsidiary” shall mean any Company of which the Corporation owns, directly or indirectly, (i) a majority of the outstanding shares of Equity Securities of such Company or (ii) shares having a majority of the voting power of the outstanding voting stock of such Company. For the purpose of determining whether a Company is a Subsidiary, the outstanding voting stock and shares of Outstanding Equity Securities thereof shall include unissued shares of which the Corporation is the Beneficial Owner but, except for the purposes of Section L.3.(d) herein, shall not include any other shares which may be issuable pursuant to any agreement, arrangement or understanding, or upon the exercise of conversion rights, warrants or options, or otherwise, to any Person who is not the Corporation.

(h) “Corporation/Company” shall mean the Company and its Subsidiaries.

4.) *Amendment Supersedes Minnesota Statutes.*

The provisions of Article IX L.) supersede in all respects the Minnesota Greenmail and Anti-Greenmail Statutes as they now exist, hereafter become effective, or hereafter from time to time, may be changed, amended or supplemented.

ARTICLE X

Meetings of the shareholders and directors may be held outside the State of Minnesota. The books of this corporation may be kept outside the State of Minnesota at such places as may be from time to time designated by the Board of Directors or in the By-Laws of the corporation.

ARTICLE XI

These Restated Articles of Incorporation shall only be amended, altered, changed, modified, added to, rescinded or repealed in whole or in part by:

a) a legally submitted, properly passed resolution of the Board of Directors or a legally proposed resolution submitted by the required voting power of the shares entitled to vote as set forth in Minnesota Statutes Annotated, Chapter 302A., and

b) its submission to a vote at a regular or special meeting of shareholders to which written notice setting forth the substance of the proposed amendment and the time and place of the meeting is timely given to the shareholders entitled to vote at the meeting, and

c) the approval of said resolution by the affirmative vote of two-thirds (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. Shareholders that withhold their vote or abstain from voting shall not be counted as voting.

ARTICLE XII

These amended and restated Articles restate the Articles in their entirety and supercede the original Articles and all amendments and restatements of them. These Restated Articles are effective when filed with the Secretary of the State of Minnesota.

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Exhibit 21.1

Subsidiaries of Flexsteel Industries, Inc.

DMI Furniture, Inc
DMI Management, Inc. *
DMI Sourcing Company, LLC *
DMI Business Consulting Company (Shenzhen) Co. Ltd.*
Thailand LLC (99.99% interest) *
Vietnam Representative Office *
Desert Dreams, Inc. **
Four Seasons Inc. **

* Subsidiaries of DMI Furniture, Inc.
** Inactive subsidiaries

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 33-1836, 33-26267, 333-1413, 333-45768, and 333-105951 on Form S-8 of our reports dated August 29, 2007 appearing in this Annual Report on Form 10-K of Flexsteel Industries, Inc. and Subsidiaries for the year ended June 30, 2007.

DELOITTE & TOUCHE LLP

Minneapolis, Minnesota
August 29, 2007

Exhibit 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

I, Ronald J. Klosterman, certify that:

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

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

   d) disclosed in this report any changes in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit and Ethics Committee of the 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: August 29, 2007

By: */S/ Ronald J. Klosterman*
Ronald J. Klosterman
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, Timothy E. Hall, certify that:

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

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any changes in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit and Ethics Committee of the 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: August 29, 2007

By: */S/ Timothy E. Hall*
Timothy E. Hall
Chief Financial Officer

Exhibit 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

In connection with the Annual Report of Flexsteel Industries, Inc. (the "Company") on Form 10-K for the fiscal year ended June 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Ronald J. Klosterman, Chief Executive Officer, and Timothy E. Hall, Chief Financial Officer, of the Company, 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 Company.

Date: August 29, 2007

By: */S/ Ronald J. Klosterman*
Ronald J. Klosterman
Chief Executive Officer

By: */S/ Timothy E. Hall*
Timothy E. Hall
Chief Financial Officer

Exhibit 99.1

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of Flexsteel Industries, Inc.

We have audited the consolidated financial statements of Flexsteel Industries, Inc. and subsidiaries (the “Company”) as of June 30, 2007 and 2006, and for each of the three years in the period ended June 30, 2007, management’s assessment of the effectiveness of the Company’s internal control over financial reporting as of June 30, 2007, and the effectiveness of the Company’s internal control over financial reporting as of June 30, 2007, and have issued our report thereon dated August 29, 2007; such report is included elsewhere in this Form 10-K. Our audits also included the consolidated financial statement schedules of the Company listed in Item 15. These consolidated financial statement schedules are the responsibility of the Company’s management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

DELOITTE & TOUCHE LLP

Minneapolis, Minnesota
August 29, 2007