

## SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]  
For the fiscal year ended June 30, 1998

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]  
For the transition period from to  
Commission file number 0-5151

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: (319) 556-7730	

Securities registered pursuant to Section 12(b) of the Act:  
Title of each class: Name of each exchange on which registered:  
NASDAQ  
Securities registered pursuant to Section 12(g) of the Act:  
COMMON STOCK, \$1.00 PAR VALUE  
(Title of Class)

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  No 

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.

State the aggregate market value of the voting stock held by non-affiliates of the registrant as of August 6, 1998 which is within 60 days prior to the date of filing:

Common Stock, Par Value \$1.00 Per Share: \$48,431,030

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of August 6, 1998:

CLASS	SHARES OUTSTANDING
Common Stock, \$ 1.00 Par Value	6,831,517 Shares

## DOCUMENTS INCORPORATED BY REFERENCE

PORTIONS OF REGISTRANT'S ANNUAL REPORT TO SHAREHOLDERS FOR THE YEAR ENDING JUNE 30, 1998 IN PARTS I, II, AND IV.

IN PART III, PORTIONS OF THE REGISTRANT'S 1998 PROXY STATEMENT, TO BE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION WITHIN 120 DAYS OF THE REGISTRANT'S FISCAL YEAR END.

Exhibit Index -- page 6

## PART I

## ITEM 1. BUSINESS

## (a) GENERAL DEVELOPMENT OF BUSINESS

The registrant was incorporated in 1929 and has been in the furniture seating business ever since. For more detailed information see the registrant's 1998 Annual Report to Shareholders which is incorporated herein by reference.

## (b) FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

The registrant's operations consist of one industry segment -- upholstered seating. For more detailed financial information see the registrant's 1998 Annual Report to Shareholders which is incorporated herein by reference.

The registrant's upholstered seating business has three primary areas of application -- residential seating, recreational vehicle seating and commercial seating. Set forth below, in tabular form, is information for the past three

fiscal years showing the registrant's sales of upholstered seating attributable to each of the areas of application described above:

SALES FOR UPHOLSTERED SEATING APPLICATIONS

	1998	1997	1996
	----- AMOUNT OF SALES -----	----- AMOUNT OF SALES -----	----- AMOUNT OF SALES -----
Residential Seating.....	\$139,200,000	\$133,600,000	\$128,600,000
Recreational Vehicle Seating ...	73,900,000	64,600,000	58,200,000
Commercial Seating .....	23,000,000	21,200,000	18,200,000
	-----	-----	-----
Upholstered Seating Total .....	\$236,100,000	\$219,400,000	\$205,000,000
	=====	=====	=====

(c) NARRATIVE DESCRIPTION OF BUSINESS

(1) (i), (ii), (vii) The registrant is engaged in one segment of business, namely, the design, manufacture and sale of a broad line of quality upholstered furniture for residential, commercial, and recreational vehicle seating use. The registrant's classes of products include a variety of wood and upholstered furniture including upholstered sofas, loveseats, chairs, reclining and rocker-reclining chairs, swivel rockers, sofa beds and convertible bedding units, some of which are for the home, office, motorhome, travel trailer, and vans. Featured as a basic component in most of the upholstered furniture is a unique drop-in-seat spring. The registrant primarily distributes its products throughout most of the United States through the registrant's sales force to approximately 3,000 furniture dealers, department stores, recreational vehicle manufacturers and van converters, and hospitality and healthcare facilities. The registrant's products are also sold to several national chains, some of which sell on a private label basis.

(iii) Sources and availability of raw materials essential to the business:

The registrant's furniture products utilize various species of hardwood lumber obtained from Arkansas, Mississippi, Missouri and elsewhere. In addition to hardwood lumber and engineered wood products, principal raw materials utilized in the manufacturing process include bar and wire stock, high carbon spring steel, fabrics, leather and polyurethane. While the registrant purchases these materials from outside suppliers, it is not dependent upon any single source of supply. The raw materials are all readily available.

(iv) Material patents and licenses:

The registrant 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. In addition, it holds licenses to manufacture certain rocker-recliners. The registrant does not consider its patents and licenses material to its business.

(v) The registrant's business is not considered seasonal.

(viii) The approximate dollar amounts of backlog of orders believed to firm as of the end of the last fiscal year and the preceding fiscal year are as follows:

JUNE 30, 1998	JUNE 30, 1997
-----	-----
\$26,100,000*	\$22,700,000

\*All of this amount is expected to be filled in fiscal year ending June 30, 1999.

(ix) Competitive conditions:

The furniture industry is highly competitive. There are numerous furniture manufacturers in the United States. Although the registrant is one of the largest manufacturers of upholstered furniture in the United States, according to the registrant's best information it manufactures and sells less than 4% of the upholstered furniture sold in the United States. The registrant's principle method of meeting competition is by emphasizing its product performance and to use its sales force.

(x) Expenditures on Research Activities:

Most items in the upholstered seating line are designed by the registrant's own design staff. New models and designs of furniture, as well as new fabrics, are introduced continuously. The registrant estimates that approximately 40% of its upholstered seating line is redesigned in whole or in part each year. In the last three fiscal years, these redesign activities involved the following expenditures:

FISCAL YEAR ENDING	EXPENDITURES
-----	-----
June 30, 1996	\$1,485,000
June 30, 1997	\$1,540,000
June 30, 1998	\$1,640,000

(xi) Approximately 2,300 people are employed by the registrant.

(d) FINANCIAL INFORMATION ABOUT DOMESTIC OPERATIONS

Financial information about domestic operations is set forth in the registrant's 1998 Annual Report to Shareholders which is incorporated herein by reference. The registrant has no foreign operations and makes minimal export sales.

ITEM 2. PROPERTIES

(a) THE REGISTRANT OWNS THE FOLLOWING MANUFACTURING PLANTS:

LOCATION	APPROXIMATE SIZE (SQUARE FEET)	PRINCIPAL OPERATIONS
Dubuque, Iowa	845,000	Upholstered Furniture- Recreational Vehicle - Metal Working
Lancaster, Pennsylvania	216,000	Upholstered Furniture- Recreational Vehicle
Riverside, California	206,000	Upholstered Furniture- Recreational Vehicle
Harrison, Arkansas	123,000	Woodworking Plant
New Paris, Indiana	168,000	Upholstered Furniture- Recreational Vehicle
Dublin, Georgia	153,000	Upholstered Motion Furniture
Starkville, Mississippi	349,000	Upholstered Furniture- Woodworking Plant
Elkhart, Indiana	99,500	Upholstered Furniture- Vehicle

The registrant's operating plants are well suited for their manufacturing purposes and have been updated and expanded from time to time as conditions warrant. There is adequate production capacity to meet present market demands.

The registrant leases showrooms for displaying its products in the furniture marts in High Point, North Carolina and San Francisco, California.

The registrant leases one warehouse in Vancouver, Washington of approximately 15,750 sq. feet for storing its products prior to distribution.

(b) OIL AND GAS OPERATIONS: NONE.

ITEM 3. LEGAL PROCEEDINGS

The Company has no material legal proceedings pending other than ordinary routine litigation incidental to the business.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter no matter was submitted to a vote of security holders.

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of the registrant, their ages, positions (in each case as of June 30, 1998), 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)
K. B. Lauritsen (55)	President/Chief Executive Officer (November 1979)
E. J. Monaghan (59)	Executive Vice President/Chief Operating Officer (November 1979)
R. J. Klosterman (50)	Vice President Finance/Chief Financial Officer & Secretary (June 1989)
J. R. Richardson (54)	Senior Vice President of Marketing (November 1979)
T. D. Burkhart (56)	Senior Vice President of Vehicle Seating (February 1984)
P. M. Crahan (50)	Vice President (June 1989)
J. T. Bertsch (43)	Vice President (June 1989)

Each named executive officer has held the same office of an executive or management position with the registrant for at least five years.

Cautionary Statement Relevant to Forward-Looking Information for the Purpose of "Safe Harbor" Provisions and 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 of the Company, including statements contained in the Company's filings with the Securities and Exchange Commission and in its reports to stockholders.

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

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

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

The NASDAQ -- National Market System, is the principal market on which the registrant's Common Stock is being traded. The market prices for the stock and the dividends paid per common share, for each quarterly period during the past two years is shown in the registrant's Annual Report to Shareholders for the Year Ended June 30, 1998, and is incorporated herein by reference.

There were approximately 2,300 holders of Common Stock of the registrant as of June 30, 1998.

ITEM 6. SELECTED FINANCIAL DATA

This information is contained on page 6 in the registrant's Annual Report to Shareholders for the Year Ended June 30, 1998, under the caption "Five Year Review" and is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis is contained on page 15 and page 16 in the registrant's Annual Report to Shareholders for the Year Ended June 30, 1998 and is incorporated herein by reference.

ITEM 7A. QUANTITATIVE INFORMATION ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following financial statements of the Company included in the financial report section of the Annual Report to Shareholders for the Year Ended June 30, 1998, are incorporated herein by reference:

	PAGE (S)
	-----
Balance Sheets, June 30, 1998, 1997.....	8
Statements of Income and Comprehensive Income --Years Ended June 30, 1998, 1997, 1996.....	9
Statements of Changes in Shareholders' Equity -- Years ended June 30, 1998, 1997, 1996.....	10
Statements of Cash Flows -- Years Ended June 30, 1998, 1997, 1996.....	11
Quarterly Financial Data -- Years Ended June 30, 1998 and 1997.....	14
Notes to Financial Statements.....	12-14
Independent Auditors' Report.....	7

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

During fiscal 1998 there were no changes in or disagreements with accountants on accounting procedures or accounting and financial disclosures.

PART III

ITEMS 10, 11, 12. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT, EXECUTIVE COMPENSATION AND SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information identifying directors of the registrant, executive compensation and beneficial ownership of registrant stock and supplementary data is contained in the registrant's 1998 definitive Proxy Statement to be filed with the Securities and Exchange Commission and is incorporated herein by reference. Executive officers are identified in Part I, item 4 above.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

This information is contained under the heading "Certain Relationships and Related Transactions" in the registrant's 1998 definitive Proxy Statement to be filed with the Securities and Exchange Commission and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) (1) Financial Statements

The financial statements of the registrant included in the Annual Report to Shareholders for the Year Ended June 30, 1998, are incorporated herein by reference as set forth above in ITEM 8.

(2) Schedules

The following financial schedules for the years ended 1998, 1997 and 1996 are submitted herewith:

	PAGE
	-----
SCHEDULE VIII                      -- Reserves	9

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

(3) Exhibit No.

- 3.1 Restated Article of Incorporation by reference to Exhibits to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1988.
- 3.2 Bylaws of the Registrant incorporated by reference to Exhibits to the Annual Report on Form 10-K for the fiscal year ended June 30, 1994.
- 13 Annual Report to Shareholders for the Year Ended June 30, 1998.
- 99 1998 Form 11-K for Salaried Employee's Savings Plan 401(k).
- 23.1 Independent Auditor's Report.
- 22 1998 definitive Proxy Statement incorporated by reference is to be filed with the Securities Exchange Commission on or before December 1, 1998.
- 23.2 Consent of Independent Auditors.
- 4 Instruments defining the rights of security holders, including indentures. The issuer has not filed, but agrees to furnish upon request to the Commission copies of the Mississippi Industrial Development Revenue Bond Agreement issued regarding the issuer's facilities in Starkville, MS.
- 27.1 Financial Data Schedule for the fiscal year ended June 30, 1998.
- 27.2 Restated Financial Data Schedules for the fiscal years ended June 30, 1997, June 30, 1996 and the quarters ended September 30, 1996, December 31, 1996 and March 31, 1997.
- 27.3 Restated Financial Data Schedules for the quarters ended September 30, 1997, December 31, 1997 and March 31, 1998.

(b) REPORTS ON FORM 8-K

No reports on Form 8-K were filed during the last quarter of the fiscal year ended June 30, 1998.

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: September 16, 1998  
-----

FLEXSTEEL INDUSTRIES, INC.

By: /S/ K. B. LAURITSEN  
-----  
K. B. LAURITSEN  
PRESIDENT, CHIEF EXECUTIVE OFFICER  
and  
PRINCIPAL EXECUTIVE OFFICER

By: /S/ R. J. KLOSTERMAN  
-----  
R. J. KLOSTERMAN  
VICE PRESIDENT OF FINANCE  
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: September 16, 1998 /S/ J. B. CRAHAN  
-----  
J. B. Crahan  
DIRECTOR

Date: September 16, 1998 /S/ K. BRUCE LAURITSEN  
-----  
K. Bruce Lauritsen  
DIRECTOR

Date: September 16, 1998 /S/ EDWARD J. MONAGHAN  
-----  
Edward J. Monaghan  
DIRECTOR

Date: September 16, 1998 /S/ JAMES R. RICHARDSON  
-----  
James R. Richardson  
DIRECTOR

Date: September 16, 1998 /S/ JEFFREY T. BERTSCH  
-----  
Jeffrey T. Bertsch  
DIRECTOR

Date: September 16, 1998 /S/ PATRICK M. CRAHAN  
-----  
Patrick M. Crahan  
DIRECTOR

Date: September 16, 1998 /S/ L. BRUCE BOYLEN  
-----  
L. Bruce Boylen  
DIRECTOR

Date: September 16, 1998 /S/ JOHN R. EASTER  
-----  
John R. Easter  
DIRECTOR

Date: September 16, 1998 /S/ THOMAS E. HOLLORAN  
-----  
Thomas E. Holloran  
DIRECTOR

Date: September 16, 1998 /S/ ART D. RICHARDSON  
-----  
Art D. Richardson  
DIRECTOR



SCHEDULE VIII

FLEXSTEEL INDUSTRIES, INC.

RESERVES  
FOR THE YEARS ENDED JUNE 30, 1998, 1997 AND 1996

COLUMN A ----- DESCRIPTION -----	COLUMN B ----- BALANCE AT BEGINNING OF YEAR -----	COLUMN C ----- ADDITIONS CHARGED TO INCOME -----	COLUMN D ----- DEDUCTIONS FROM RESERVES (NOTE) -----	COLUMN E ----- BALANCE AT CLOSE OF YEAR -----
Allowance for Doubtful Accounts:				
1998.....	\$ 2,799,000 =====	\$ 943,000 =====	\$ 1,544,000 =====	\$ 2,198,000 =====
1997.....	\$ 2,153,000 =====	\$ 831,000 =====	\$ 185,000 =====	\$ 2,799,000 =====
1996.....	\$ 2,160,000 =====	\$1,246,000 =====	\$ 1,253,000 =====	\$ 2,153,000 =====

-----  
NOTE -- UNCOLLECTIBLE ACCOUNTS CHARGED AGAINST RESERVE, LESS RECOVERIES.

[PHOTO]

FLEXSTEEL  
INDUSTRIES  
INCORPORATED

FASHIONING OUR FUTURE

ANNUAL  
REPORT

FISCAL YEAR  
ENDED JUNE 30, 1998

[LOGO]  
FLEXSTEEL (R)  
AMERICA'S SEATING SPECIALIST

FINANCIAL HIGHLIGHTS

[AMOUNTS IN THOUSANDS EXCEPT PER SHARE DATA]

Year Ended June 30,	1998	1997	1996
	-----	-----	-----
Net Sales.....	\$236,125	\$219,427	\$205,008
Income Before Taxes.....	11,527	9,473	7,052
Net Income.....	7,602	6,048	4,502
Per Share of Common Stock			
Average Shares Outstanding:			
Basic.....	6,959	7,024	7,172
Diluted.....	7,035	7,072	7,188
Earnings: (1)			
Basic.....	1.09	0.86	0.63
Diluted.....	1.08	0.86	0.63
Cash Dividends.....	0.48	0.48	0.48
At June 30,:			
Working Capital.....	50,549	44,357	47,376
Net Plant and Equipment.....	23,096	26,214	23,046
Total Assets.....	104,673	99,173	95,874
Shareholders' Equity.....	78,080	75,238	74,147
Long-Term Debt.....	0	0	35

(1) The earnings per share amounts for 1997 and 1996 have been restated to comply with Statement of Financial Accounting Standards No. 128, EARNINGS PER SHARE.

-----

NET SALES	EARNINGS PER SHARE	CASH DIVIDENDS PER SHARE
[BAR CHART]	[BAR CHART]	[BAR CHART]

BOOK VALUE PER SHARE	RETURN ON COMMON EQUITY
[BAR CHART]	[BAR CHART]

[LOGO]  
FLEXSTEEL (R)  
AMERICA'S SEATING SPECIALIST

[PHOTO]

FRONT COVER AND LEFT: THIS OUTSTANDING ROOM OF FLEXSTEEL FINE FURNITURE IS FEATURED IN OUR FALL ADVERTISING. IT ENCAPSULATES FEATURES WIDELY POPULAR WITH CONSUMERS IN ITS EXPANSIVE SCALING AND LOOK OF TOTAL COMFORT. IN ADDITION TO THE HANDSOME SOFA, CHAIR, AND OTTOMAN, NOTE THE CHARISMA (R) CHAIR AND THE OCCASIONAL TABLES, ALSO FROM FLEXSTEEL.

-----

TO OUR SHAREHOLDERS

[PHOTO]

JACK B. CRAHAN  
CHAIRMAN OF THE BOARD

[PHOTO]

K. BRUCE LAURITSEN  
PRESIDENT & CHIEF EXECUTIVE OFFICER

Even a more-than-century-old company is always a work in progress. Well into our own second century, Flexsteel has this year taken fresh strides, readying the company for an exciting new century, in an economy increasingly technological and global.

Sales for the fiscal year ended June 30, 1998, were \$236,125,000, an all-time high and an increase of 8% over revenues of \$219,427,000 in the previous fiscal year. Net earnings were \$7,602,000 or \$1.09 per share (basic), an increase of 26% over earnings of \$6,048,000 or \$.86 per share (basic), recorded a year earlier.

While this solid achievement in a fiercely competitive marketplace is gratifying, we must continue to improve our return on investment. We also continue to scrutinize our overall operations in an effort to eliminate unprofitable products and as well as operations that do not contribute to increased shareholder value.

#### RESIDENTIAL FURNITURE

Sales in the residential furniture segment of our business rose 4%, mostly due to increased market penetration among independent dealers. Increased housing starts, increased sales of existing homes, a very high employment rate, and low inflation are all major contributors to improved sales of home furnishing, but we can expect pricing pressures to persist as manufacturers compete aggressively for shrinking display area.

Flexsteel's two programs for dealers - the Gallery Program and Comfort Seating Showrooms - continue their sustained growth, thanks to the success of recent introductions at the High Point and San Francisco markets. Noteworthy have been our Casual Classic introductions which typify the direction of growth in this market - toward fashionable and extremely comfortable styles. Our Casual Classic Collection meets these criteria, with the personality and distinctiveness to lift the spirits of any room.

Our Timeless Traditional styles, a Flexsteel hallmark of classic beauty, also put a high priority on comfort. Leather continues in popularity, also with emphasis on comfort as well as style.

Our distinctive furniture deserves accessories that are equally smart and appealing, and we provide our dealer network with tables and other accent pieces which pair perfectly with our own fine upholstered furniture.

For the still-growing market in motion and reclining furniture, we are adding 90,000 square feet of production space to our manufacturing facility in Dublin, Georgia.

International sales continue to improve, even though a strong dollar and the Asian economic crisis have not been favorable to furniture exports. Our current emphasis is on Canadian, European, and the Mideast markets where better opportunities now exist.

Flexsteel is dedicated to increasing the number of Comfort Seating Stores in metropolitan markets. To that end, we have retained the services of specialists in real estate and in retailing. These experts will help our dealers in finding the right locations, and in building or remodeling and layout of these new retailing stores.

#### ADVERTISING

We continue to increase our national advertising, this year running fourteen four-color ads in seven consumer publications. These reach our target audience, estimated to be over fifty-one million, of women 25-54 with household incomes of \$40,000 to \$75,000.

Our dealer support is one of the best in the industry. For the many dealers now using desk-top publishing programs, we provide CD-ROM disks with product and lifestyle photos and suggested dealer ads.

[PHOTO]

LEATHER FURNITURE BY FLEXSTEEL IS CHOSEN FOR COMFORT AND STYLE, HERE ACCENTED WITH LARGE NAILHEAD TRIM AND TURNED BUN FEET.

[PHOTO]

OUR NEWEST BUCKET SEAT WITH ELECTRIC CONTROLS, THE PATENTED ERGOFLEX ARMS, RECLINING BACK, AND INTEGRATED SEAT BELT. FINGERTIP CONTROLS ALLOWS ADJUSTING ERGOFLEX ARMS INDEPENDENTLY OF CHAIR'S RECLINING BACK.

Trends in television advertising for furniture emphasize upscale looks, for which we provide our dealers with customizable video footage displaying our products with models.

We reach millions of potential customers through our Web site; it is continually updated to reflect the "lifestyles" look of our furniture, to showcase new products, and to highlight new exclusive promotions or events at Flexsteel Galleries and Comfort Seating Showrooms.

The number of hits has grown dramatically; responding via e-mail we can reach millions of home owners directly and tell them of special promotions at our dealers. Our Web site also carries our message to potential buyers of contract seating or RVs that traditional Flexsteel comfort and style are also available in those markets.

#### RECREATIONAL VEHICLE SEATING

Revenues in this division are at record levels, as we once again increased our market share in seating for motor homes and travel trailers. Sales for van conversion seating have been sluggish as the market for converted units continue to decline. Dygert Seating, acquired in fiscal 1997, has struggled under this restraint, and we closed our leased Watkinsville, Georgia, facility. Although volume at Dygert Seating is off substantially, we are confident in our management team's ability to open new markets, such as seats for wheel chairs and motorized scooters used in the medical field, making this acquisition financially rewarding.

We expect the van conversion business to eventually rebound, and accordingly have developed a new, safer integrated seat and restraint system for the van conversion market.

We continue to develop new products for the recreational marine industry and we expect much higher revenues as we improve our market penetration. We are fortunate to have Flexsteel's years of leadership and reputation for quality products for the recreational automotive market.

#### COMMERCIAL SEATING

Sales for contract furniture continue to do extremely well; we remain confident of our prospects in the hospitality and health care fields. We have been limited by lack of production capacity in this labor-intensive industry. In Starkville, Mississippi, where our principal contract facility is located, the unemployment rate is less than 3%, and a shortage of workers has hampered our output. While we continue to supplement our production at other manufacturing facilities, this avenue is limited by certain design features. We do remain confident of our ability to work out manufacturing problems, and we continue to focus on solutions that support our growth in this field.

#### FRANK BERTSCH

Flexsteel this year was saddened by the passing of Frank Bertsch, grandson of one of our founders. For many years he enriched us with his remarkable ability to turn problems into opportunities and to keep us focused on the long term, serving as President, Chief Executive Officer, and Chairman of the Board of Directors. We will miss his abundant contributions, advice, and counsel.

#### OUTLOOK

It is our goal to remain focused on providing superior values in product and service to your corporation's three business platforms: home furnishings, recreational vehicle products, and contract furniture.

Given the healthy business conditions, with the highest employment rate in many years, low inflation and strong consumer confidence, we expect to continue to improve sales and earnings in this next fiscal year. Our financial condition remains strong at year-end. Working capital exceeded \$50,549,000, which included cash, cash equivalents and short-term investments of \$15,342,000. With no long-term debt and shareholders' equity of \$78,080,000, we have the resources to implement our strategic plan and fund continued growth and possible acquisitions.

During 1998, to enhance shareholders' value, we continued to repurchase shares of common stock and completed the previously authorized buyback of 500,000 shares. We will continue this program from time to time as we feel the stock is undervalued.

Our dividend rate, which we have paid without interruption since 1938, is one of the highest in our industry, and we are committed to future dividend reviews.

We appreciate the support of our shareholders, our associates, our customers, and our suppliers, and we are working hard to achieve the value you expect from your investment.

/s/ Jack B. Crahan  
JACK B. CRAHAN  
CHAIRMAN OF THE BOARD OF DIRECTORS

/s/ K. Bruce Lauritsen  
K. BRUCE LAURITSEN  
PRESIDENT & CHIEF EXECUTIVE OFFICER

-----

Leading the Flexsteel success story across all our product lines is a design concept reflecting today's market demands and permeating everything we do. This concept, appropriately called "Lifestyles Design," emerged dramatically in our residential seating, and is also reflected in hospitality and health care seating, in motor homes, and in other recreational vehicles, including travel trailers, light trucks, and yachts.

The lifestyle of today's smart, fashion-savvy and value-conscious consumer emphasizes comfortable elegance. Responding to this trend, our designers are using softer seating, relaxed styling and more drapeable fabrics to create a winning fashionable line. This Flexsteel look fits especially well in the life style of today's younger buyers, but is in no sense limited to them - this is handsome seating with broad-based appeal.

And there is more Flexsteel in the cities. Our metropolitan presence is growing through multi-store dealers and Comfort Seating Showrooms specializing in Flexsteel. Our designers also create smart cosmopolitan looks for city living.

Our new Roma Divani leather lines were designed in Italy, and feature the utmost in seating comfort, paired with exciting and upscale design. The broad appeal of what is definitely European styling has heightened interest in Flexsteel's fine leather furniture and led to this spring's introduction of three additional groups at our High Point Market.

Another exciting line has emerged from our designers' use of the wood processing capabilities of our Starkville, Mississippi, plant. They have created an outstanding wood-framed sofa that is complemented with coordinating chairs and occasional tables. This line, too, has sparked so much consumer interest that we are planning more such groups including coordinated case goods.

Design is equally a key for success in the commercial, or contract, seating market where furniture is specified by interior designers, and our Commercial Seating division in Starkville has introduced new and contemporary designs in chairs, sofas, and ottomans. The hospitality market is also installing recliners in hotels and motels, where Flexsteel is more often the recliner of choice, not only for our residential styling but also for our dependable performance.

For the Lifestyles look also in demand in motor homes, Flexsteel's Metal Division produces recliners and dual inclining sofas with residential styling. Our name has long been a selling feature in converted vans, and our RV designers are providing interior packages with such features as cushions and trim. The traveling public can now take Flexsteel wherever they go: sofas in trailers and motor homes, or comfortable Flexsteel seating in their light trucks and in their yachts.

Upholstered Flexsteel furniture, is lasting beauty; today it is more popular for its fashion than ever, an outstanding success story built on, and made possible by, a sterling reputation for quality that is over a century old, and growing.

[PHOTOS]

TOP PHOTO: EURO DESIGN, AMERICAN COMFORT: THIS LEATHER SOFA WITH RAM'S HORN ARMS IS A TOP SELLER.

ABOVE: THE LATEST LOOK IN RECLINERS IS UPSCALE, WITH THE LOOK OF A LOUNGE OR CLUB CHAIR.

[PHOTO]

AT THE DUBUQUE GOLF AND COUNTRY CLUB DINING ROOM, GUESTS SIT COMFORTABLY IN OUR HANDSOME C5338 CHAIRS.

-----

An aggressive marketing program has been the impetus for Flexsteel's continued growth in all its market lines. In addition to traditional marketing techniques, an expanded cross-awareness program has opened new marketing opportunities.

For example, a residential customer may learn through the Internet that he can find Flexsteel seating in a converted van; an interior designer who has Flexsteel at home has added confidence if she specifies Flexsteel in a commercial application.

Especially through Comfort Seating Showrooms, we have expanded marketing efforts in metropolitan markets. Popular with customers, they feature open layouts, easy traffic patterns and a very wide selection. Because he can offer a broader product range, complemented with accessories and our imported tables, the Comfort Seating retailer is rewarded with bigger ticket sales and improved sales per square foot. There are now seven successful Comfort Seating Stores in operation, with sales exceeding projections. Another six will be open by the first of January. Our goal is to open one hundred stores within five years.

Flexsteel Galleries also continue their growth: this year we added fourteen more of these instore Galleries, meanwhile updating existing Flexsteel Galleries in one hundred and seventy-five stores. At the same time, Flexsteel continues its strong support of our long-standing customer base, the independent retailer.

We expect to increase market share in motion furniture, the fastest-growing segment of the industry. The value-conscious consumer is receptive to Flexsteel's quality story, and we are introducing new upscale, "living-room" styling to satisfy that market.

Imaginative approaches to marketing have opened new markets such as resort hotels and the marine business. The greatest market for upscale motor homes is in the generation now entering their fifties, and in the United States every seven minutes someone reaches that age. New seating applications supplied by Flexsteel include those for yachts, signature motor homes and light trucks, and fold-down beds for the hospitality industry.

The greatest opportunities in the health care industry are in retirement and assisted-living homes, where Flexsteel style and quality are especially welcome. The United States government continues as a customer -- a typical recent contract calls for Flexsteel to supply the upholstered furniture in the temporary lodging facilities of nineteen Air Force bases.

Our presence on the Internet gives us valuable exposure: growing exponentially, the Internet is predicted to reach 36 million homes by 2000, and nearly half of its users are women. We have also expanded our presence in consumer magazines with fourteen full-color ads to appear this year, directing readers to our Web site and an 800 number.

A Comfort Seating Showroom dealer has remarked that his store's success was tied to its "impressive brand name presence." In the end, one of our greatest marketing tools is recognition of the Flexsteel name and every thing it stands for.

[PHOTOS]

TOP PHOTO: UPSCALE MOTION FURNITURE APPEALS TO CONSUMERS, LIKE THIS HANDSOME SECTIONAL WITH "CHAIR-AND-A-HALF" RECLINERS AT EACH END.

ABOVE: FLARED ARMS AND A SHAPED BACK DISTINGUISH THIS CHAIR DESIGNED FOR THE NEEDS OF THE CONTRACT MARKET.

[PHOTOS]

CRUISERS YACHTS' 5000 SEDAN SPORT SLEEPS 8 AND EMPHASIZES LUXURY WITH INCLINER SOFA, SWIVELCHAIRS AND CAPTAIN'S SEATS BY FLEXSTEEL.

Photo courtesy of Cruisers Yachts

Inventive applications by our designers and engineers take advantage of the expanding uses of technology.

Many of Flexsteel's contract and recreational vehicle clients require us to turn around ever-more quickly on prototypes. Our new computerized pattern-making system which incorporates a digital camera saves significant development time. Faster completion of prototypes means cost savings, and the system greatly simplifies the transition to production, with the digital camera helping us produce complete documentation quickly, including bills of material and specification books.

The Metal Division, maker of the famous Flexsteel spring, continues its innovations with continued creative use of the synergy between our metal expertise and our residential furniture skills. It makes metal components for the recliners which our Contract Division sells to the health-care industry, while our residential furniture skills are applied to such things as inclining sofas for motor homes and travel trailers.

New products in the Metal Division include a fold-down bed for resort hotels and, for RVs, restraint packages and dual inclining sofas with drop-down trays. Our patented Ergo-Flex arm for motor home seats allows the independent control of the arm's position, whether the seat is reclining or upright. We also have under development, for high-end motor homes, integrated belt-in-seat packages, a power footrest for passengers, and recliners with home-like residential styling.

Flexsteel seating is also in the marine industry. We are developing new port and starboard side lounges, power beds, and helm seats for yachts and large power boats.

At many large dealers, Comfort Seating Stores, and most galleries, the customer can get a Sneak Preview(TM) of her choice of fabric and frame on our video cataloging system. We utilize more bar coding for inventory control, and now are able to use CAD instead of paper to design plant additions, such as the 90,000 square-foot addition to the Dublin plant.

Technology helps us make the most of precious resources: when we use hardwood laminates in frames, we not only make stronger frames, we use much fewer trees. Yield is further increased by using CNC routers which also are more cost-effective and give us just-in-time practicality in frame parts inventories. Planned new CNC cutters will further automate pattern cutting.

Because historically Flexsteel has done most of its own programming, we have kept our software up to date, anticipated our computers' responses to the year 2000, and we do not expect any problems resulting from the date change.

Flexsteel applies technology to sustain our creativity, to offer the finest warranties in the industry, and to uphold a tradition of the finest craftsmanship which we have been building for more than a century.

[PHOTO]  
PHOTO COURTESY A&J VAN INTERIORS, VALDERS, WI

[PHOTO]  
TOP PHOTO: A LUXURIOUS VAN INTERIOR WITH FLEXSTEEL BUCKET SEATS AND SLEEPER.  
ABOVE: A SMARTLY-STYLED SWIVEL GLIDER WITH LAWSON ARMS AND TEE SEAT CUSHION.

[PHOTO]  
A DISTINCTIVE INTERIOR STARS THE SOPHISTICATION OF OUR ROMA DIVANI LEATHER COLLECTION WITH DRAMATIC SCROLLED ARMS. OUR UNUSUAL GLASS-TOPPED COCKTAIL TABLE COMPLETES THE SCENE.

-----  
FIVE YEAR REVIEW

[ALL AMOUNTS IN THOUSANDS EXCEPT PER SHARE DATA]

	1998	1997	1996	1995	1994
	----	----	----	----	----
		(2)			
SUMMARY OF OPERATIONS					
Net Sales .....	\$236,125	\$219,427	\$205,008	\$208,432	\$195,388
Cost of Goods Sold .....	185,345	173,088	161,451	164,231	151,066
Interest and Other Expense .....	356	345	358	372	270
Interest and Other Income .....	2,015	1,931	1,132	924	1,063
Income Before Taxes .....	11,527	9,473	7,052	8,111	10,092
Income Taxes .....	3,925	3,425	2,550	2,900	3,625
Net Income (1) (3) (4) .....	7,602	6,048	4,502	5,211	6,787
Earnings per Common Share: (1) (3) (4) (5)					
Basic .....	1.09	0.86	0.63	0.73	0.95
Diluted .....	1.08	0.86	0.63	0.72	0.94
Cash Dividends per Common Share .....	0.48	0.48	0.48	0.48	0.48
STATISTICAL SUMMARY					
Average Common Shares Outstanding:					
Basic .....	6,959	7,024	7,172	7,178	7,140
Diluted .....	7,035	7,072	7,188	7,205	7,201
Book Value per Common Share .....	11.49	10.86	10.45	10.26	9.96
Total Assets .....	104,673	99,173	95,874	96,271	95,088
Property, Plant and Equipment, net .....	23,096	26,214	23,046	24,376	18,829
Capital Expenditures .....	2,392	5,273	3,298	9,948	5,074
Working Capital .....	50,549	44,357	47,376	46,272	47,787
Long-Term Debt .....	0	0	35	70	105
Shareholders' Equity .....	78,080	75,238	74,147	73,824	71,289
SELECTED RATIOS					
Earnings as Percent of Sales .....	3.2%	2.8%	2.2%	2.5%	3.5%
Current Ratio .....	3.1 to 1	3.1 to 1	3.5 to 1	3.4 to 1	3.3 to 1
Return on Ending Common Equity .....	9.7%	8.0%	6.1%	7.1%	9.5%
Return on Beginning Common Equity .....	10.1%	8.2%	6.1%	7.3%	10.0%
Average Number of Employees .....	2,330	2,320	2,230	2,375	2,240

(1) 1994 income and per share amounts reflect cumulative effect of accounting change as of June 30, 1994, of \$320,000 (net of income taxes) or \$.04 per share income.

(2) On March 18, 1997, the Company acquired certain assets of Dygert Seating, Inc., and the related production facilities in Elkhart, Indiana, for \$6,934,000.

(3) 1997 income and per share amounts reflect a gain on the sale of the Sweetwater, Tennessee facility of approximately \$350,000 (net of income taxes) or \$.05 per share.

(4) 1998 income and per share amounts reflect a non-taxable gain from life insurance proceeds of approximately \$720,000 or \$.10 per share.

(5) The earnings per share amounts for 1997, 1996, 1995 and 1994 have been restated to comply with Statement of Financial Accounting Standards No. 128, EARNINGS PER SHARE.



[LOGO] FLEXSTEEL INDUSTRIES, INC.

-----  
REPORTS OF AUDITORS' AND MANAGEMENT

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF FLEXSTEEL INDUSTRIES, INC.:

We have audited the accompanying balance sheets of Flexsteel Industries, Inc. (the Company) as of June 30, 1998 and 1997, and the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended June 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Flexsteel Industries, Inc. as of June 30, 1998 and 1997, and the results of its operations and cash flows for each of the three years in the period ended June 30, 1998 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP  
MINNEAPOLIS, MINNESOTA  
AUGUST 6, 1998

REPORT OF MANAGEMENT

TO THE SHAREHOLDERS OF FLEXSTEEL INDUSTRIES, INC.:

Management is responsible for the financial and operating information contained in this Annual Report, including the financial statements covered by the report of Deloitte & Touche LLP, our independent auditors. The statements were prepared in conformity with generally accepted accounting principles and include amounts based on estimates and judgments of management.

The Company maintains a system of internal controls to provide reasonable assurance that the books and records reflect the authorized transactions of the Company. There are limits inherent in all systems of internal control because their cost should not exceed the benefits derived. The Company believes its system of internal controls and internal audit functions balance the cost/benefit relationship.

The Audit & Ethics Committee of the Board of Directors, composed solely of outside directors, annually recommends to the Board of Directors the appointment of the independent auditors that are engaged to audit the financial statements of the Company and to express an opinion thereon. The Audit & Ethics Committee meets periodically with the independent auditors to review financial reports, accounting and auditing practices and controls.

K. BRUCE LAURITSEN  
PRESIDENT  
CHIEF EXECUTIVE OFFICER

RONALD J. KLOSTERMAN  
VICE PRESIDENT, FINANCE  
CHIEF FINANCIAL OFFICER  
SECRETARY

-----  
BALANCE SHEETS

	JUNE 30,	
	1998	1997
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents .....	\$ 5,464,261	\$ 4,445,327
Investments .....	9,877,784	5,041,154
Trade receivables - less allowance for doubtful accounts: 1998, \$2,198,000; 1997, \$2,799,000 .....	28,722,752	25,348,941
Inventories .....	26,607,296	26,985,554
Deferred income taxes .....	2,785,000	2,620,000
Other .....	632,730	806,117
	-----	-----
Total current assets .....	74,089,823	65,247,093
PROPERTY, PLANT AND EQUIPMENT, net .....	23,095,589	26,214,405
OTHER ASSETS .....	7,487,729	7,711,179
	-----	-----
TOTAL .....	\$104,673,141	\$ 99,172,677
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable - trade .....	\$ 5,792,708	\$ 3,845,362
Accrued liabilities:		
Payroll and related items .....	5,448,032	4,440,219
Insurance .....	5,834,895	6,057,093
Other accruals .....	4,515,177	4,237,556
Industrial revenue bonds payable .....	1,950,000	2,310,000
	-----	-----
Total current liabilities .....	23,540,812	20,890,230
DEFERRED COMPENSATION .....	3,052,525	3,044,418
	-----	-----
Total liabilities .....	26,593,337	23,934,648
	-----	-----
SHAREHOLDERS' EQUITY:		
Common stock - \$1 par value; authorized 15,000,000 shares; issued 1998, 6,794,730 shares; 1997, 6,927,310 shares ..	6,794,730	6,927,310
Retained earnings .....	70,450,282	67,750,719
Unrealized investment gain .....	834,792	560,000
	-----	-----
Total shareholders' equity .....	78,079,804	75,238,029
	-----	-----
TOTAL .....	\$104,673,141	\$ 99,172,677
	=====	=====

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

## STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

## STATEMENTS OF INCOME

	FOR THE YEARS ENDED JUNE 30,		
	1998	1997	1996
NET SALES .....	\$ 236,125,280	\$ 219,426,736	\$ 205,008,245
COST OF GOODS SOLD .....	185,345,398	173,088,406	161,450,649
GROSS MARGIN .....	50,779,882	46,338,330	43,557,596
SELLING, GENERAL AND ADMINISTRATIVE .....	40,911,581	38,450,275	37,279,056
OPERATING INCOME .....	9,868,301	7,888,055	6,278,540
OTHER:			
Interest and other income .....	2,014,982	1,930,527	1,131,952
Interest and other expense .....	(356,066)	(345,148)	(358,322)
Total .....	1,658,916	1,585,379	773,630
INCOME BEFORE INCOME TAXES .....	11,527,217	9,473,434	7,052,170
PROVISION FOR INCOME TAXES .....	3,925,000	3,425,000	2,550,000
NET INCOME .....	\$ 7,602,217	\$ 6,048,434	\$ 4,502,170
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:			
BASIC .....	6,959,310	7,024,021	7,172,299
DILUTED .....	7,035,158	7,071,895	7,188,075
EARNINGS PER SHARE OF COMMON STOCK:			
BASIC .....	\$ 1.09	\$ 0.86	\$ 0.63
DILUTED .....	\$ 1.08	\$ 0.86	\$ 0.63

## STATEMENTS OF COMPREHENSIVE INCOME

	FOR THE YEARS ENDED JUNE 30,		
	1998	1997	1996
NET INCOME .....	\$ 7,602,217	\$ 6,048,434	\$ 4,502,170
OTHER COMPREHENSIVE INCOME BEFORE TAX:			
Unrealized gains on securities arising during period	736,051	643,123	339,906
Less: reclassification adjustment for gains included in net income .....	(313,294)	(121,123)	(53,906)
Other comprehensive income, before tax .....	422,757	522,000	286,000
INCOME TAX (EXPENSE) BENEFIT:			
Income tax expense related to securities gains arising during period .....	(257,618)	(235,811)	(119,561)
Income tax benefit related to securities reclassification adjustment .....	109,653	44,411	18,961
Income tax expense related to other comprehensive income .....	(147,965)	(191,400)	(100,600)
OTHER COMPREHENSIVE INCOME, NET OF TAX .....	274,792	330,600	185,400
COMPREHENSIVE INCOME .....	\$ 7,877,009	\$ 6,379,034	\$ 4,687,570

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	UNREALIZED INVESTMENT GAIN (LOSS)	TOTAL
	SHARES	PAR VALUE				
Balance at June 30, 1995	7,193,124	\$ 7,193,124	\$ 1,386,754	\$ 65,199,703	\$ 44,000	\$ 73,823,581
Purchase of Company Stock .....	(132,453)	(132,453)	(1,178,986)			(1,311,439)
Issuance of Company Stock .....	34,373	34,373	348,864			383,237
Investment Valuation Adjustment .....					185,400	185,400
Cash Dividends .....				(3,435,548)		(3,435,548)
Net Income .....				4,502,170		4,502,170
Balance at June 30, 1996	7,095,044	7,095,044	556,632	66,266,325	229,400	74,147,401
Purchase of Company Stock .....	(186,345)	(186,345)	(722,573)	(1,212,626)		(2,121,544)
Issuance of Company Stock .....	18,611	18,611	165,941			184,552
Investment Valuation Adjustment .....					330,600	330,600
Cash Dividends .....				(3,351,414)		(3,351,414)
Net Income .....				6,048,434		6,048,434
Balance at June 30, 1997	6,927,310	6,927,310	0	67,750,719	560,000	75,238,029
Purchase of Company Stock .....	(176,489)	(176,489)	(470,508)	(1,581,978)		(2,228,975)
Issuance of Company Stock .....	43,909	43,909	470,508			514,417
Investment Valuation Adjustment .....					274,792	274,792
Cash Dividends .....				(3,320,676)		(3,320,676)
Net Income .....				7,602,217		7,602,217
Balance at June 30, 1998	6,794,730	\$ 6,794,730	\$ 0	\$ 70,450,282	\$ 834,792	\$ 78,079,804

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30,

	1998	1997	1996
<b>OPERATING ACTIVITIES:</b>			
Net income .....	\$ 7,602,217	\$ 6,048,434	\$ 4,502,170
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation .....	5,400,025	5,129,246	4,619,511
(Gain) Loss on disposition of capital assets	7,106	(646,050)	(83,878)
Trade receivables .....	(3,373,811)	688,561	(1,559,124)
Inventories .....	378,258	637,112	(161,183)
Other current assets .....	173,387	256,487	112,503
Other assets .....	223,450	(980,666)	(544,369)
Accounts payable - trade .....	1,947,346	271,130	(1,182,759)
Accrued liabilities .....	1,082,712	2,244,775	809,535
Deferred compensation .....	8,107	74,571	29,518
Deferred income taxes .....	(165,000)	(610,000)	(10,000)
Net cash provided by operating activities .....	13,283,797	13,113,600	6,531,924
<b>INVESTING ACTIVITIES:</b>			
Payment for purchase of business assets .....		(6,933,951)	
Purchases of investments .....	(7,231,401)	(1,517,439)	(4,178,560)
Proceeds from sales of investments .....	2,669,563	5,747,488	3,691,972
Proceeds from sales of capital assets .....	104,050	1,112,201	91,818
Capital expenditures .....	(2,392,365)	(5,273,317)	(3,297,623)
Net cash used in investing activities .....	(6,850,153)	(6,865,018)	(3,692,393)
<b>FINANCING ACTIVITIES:</b>			
Repayment of borrowings .....	(360,000)	(360,000)	(360,000)
Payment of dividends (\$0.48 per share) .....	(3,340,152)	(3,374,005)	(3,452,124)
Proceeds from issuance of common stock .....	514,417	184,552	383,237
Repurchase of common stock .....	(2,228,975)	(2,121,544)	(1,311,439)
Net cash used in financing activities .....	(5,414,710)	(5,670,997)	(4,740,326)
Increase (decrease) in cash and cash equivalents	1,018,934	577,585	(1,900,795)
Cash and cash equivalents at beginning of year .	4,445,327	3,867,742	5,768,537
Cash and cash equivalents at end of year .....	\$ 5,464,261	\$ 4,445,327	\$ 3,867,742
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>			
Cash paid during the year for			
Interest .....	\$ 90,000	\$ 103,000	\$ 123,000
Income taxes .....	\$ 4,405,000	\$ 3,640,000	\$ 1,927,000

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS - Flexsteel Industries, Inc. (the Company) manufactures a broad line of quality upholstered furniture for residential, recreational vehicle and commercial seating use. Products include sofas, love seats, chairs, reclining and rocker-reclining chairs, swivel rockers, sofa beds, and convertible bedding units. The Company's products are sold primarily throughout the United States and Canada, by the Company's internal sales force and various independent representatives.

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

FAIR VALUE - the Company's cash, accounts receivable, accounts payable, accrued liabilities and other liabilities are carried at amounts which reasonably approximate their fair value due to their short-term nature. Fair values of investments in debt and equity securities are disclosed in Note 2.

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

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.

REVENUE RECOGNITION - is upon delivery of product.

INSURANCE - the Company is self-insured for health care and most worker's compensation up to predetermined amounts above which third party insurance applies. The Company is contingently liable to insurance carriers under its comprehensive general, product, and vehicle liability policies, as well as some worker's compensation, and has provided a letter of credit in the amount of \$1,491,000. 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 financial statements.

COMPREHENSIVE INCOME - in June 1997, the Financial Accounting Standards Board issued Statement No. 130, REPORTING COMPREHENSIVE INCOME (SFAS 130). SFAS 130 requires the disclosure of comprehensive income and its components in the general-purpose financial statements. During 1998, the Company adopted this standard, which is reflected in the accompanying Statements of Comprehensive Income.

SEGMENT AND RELATED INFORMATION - in June 1997, the Financial Accounting Standards Board issued Statement No. 131, DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION (SFAS 131). SFAS 131 redefines how operating segments are determined and requires disclosures of certain financial and descriptive information about a company's operating segments. During 1998, the Company adopted this standard. Under the "management approach" methodology prescribed by SFAS 131, the Company operates in one segment, seating products.

ACQUISITION - on March 18, 1997 the Company announced the acquisition of certain assets of Dygert Seating, Inc. and the related production facilities in Elkhart, Indiana for \$6,933,951. The purchase included accounts receivable of approximately \$1,573,000, inventory of approximately \$1,540,000, and fixed and other current assets of approximately \$3,821,000.

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

2. INVESTMENTS

Debt and equity securities are included in Investments and in Other Assets, at fair value based on quoted market prices, and are classified as available for sale. The amortized cost and estimated market values of investments are as follows:

	June 30, 1998		June 30, 1997	
	Debt Securities	Equity Securities	Debt Securities	Equity Securities
Amortized Cost	\$ 10,780,529	\$ 2,202,952	\$ 5,505,167	\$ 2,315,994
Unrealized gains (losses)	44,668	1,277,629	(27,689)	904,344

Est. Market Value	\$ 10,825,197	\$ 3,480,581	\$ 5,477,478	\$ 3,220,338
	=====	=====	=====	=====

As of June 30, 1998, the maturities of debt securities are \$5,040,045 within one year, \$4,134,757 in one to five years, and \$1,650,395 over five years.

3. INVENTORIES

Inventories valued on the LIFO method would have been approximately \$2,331,000 and \$2,001,000 higher at June 30, 1998 and 1997, respectively, if they had been valued on the FIFO method. A comparison of inventories is as follows:

	June 30,	
	1998	1997
	-----	-----
Raw materials .....	\$ 13,538,911	\$ 13,529,232
Work in process and finished parts ..	7,227,558	7,689,051
Finished goods .....	5,840,827	5,767,271
	-----	-----
Total .....	\$ 26,607,296	\$ 26,985,554
	=====	=====

4. PROPERTY, PLANT AND EQUIPMENT

	Estimated Life (Years)	June 30,	
		1998	1997
Land .....		\$ 1,642,422	\$ 1,642,422
Buildings and improvements .....	3 - 39	24,929,545	24,485,437
Machinery and equipment .....	3 - 10	28,655,104	28,024,677
Delivery equipment .....	2 - 9	13,894,648	13,818,489
Furniture and fixtures .....	3 - 5	5,307,217	5,205,537
Total .....		74,428,936	73,176,562
Less accumulated depreciation .....		51,333,347	46,962,157
Net .....		\$ 23,095,589	\$ 26,214,405

5. BORROWINGS

The Company is obligated for \$1,950,000 for Industrial Revenue Bonds at June 30, 1998 which were issued for the financing of property, plant and equipment. The obligations are variable rate demand bonds with a weighted average rate for years ended June 30, 1998, 1997 and 1996 of 4.06%, 3.94% and 4.13%, respectively, and are due in annual installments of \$325,000 through 2004, if not paid earlier upon demand of the holder. The Company has issued a letter of credit to guarantee the payment of these bonds in the event of default. No amounts were outstanding on this letter at June 30, 1998.

6. INCOME TAXES

The total income tax provision for the years ended June 30, 1998, 1997, and 1996 was 34.0%, 36.2% and 36.2% respectively, of income before income taxes. In 1998 the effective rate was reduced by 2.2% for nontaxable life insurance proceeds of \$720,000.

PROVISION - COMPRISED OF THE FOLLOWING:

	1998	1997	1996
Federal - current .....	\$3,580,000	\$3,528,000	\$2,240,000
State - current .....	510,000	507,000	320,000
Deferred .....	(165,000)	(610,000)	(10,000)
Total .....	\$3,925,000	\$3,425,000	\$2,550,000

DEFERRED INCOME TAXES - COMPRISED OF THE FOLLOWING:

	June 30, 1998 Asset (Liability)	June 30, 1997 Asset (Liability)
Asset allowances .....	\$ 805,000	\$ 1,025,000
Deferred compensation .....	1,130,000	1,126,000
Other accruals and allowances .....	1,940,000	1,756,000
Excess of tax over book depreciation ..	(1,090,000)	(1,287,000)
Total .....	\$ 2,785,000	\$ 2,620,000

7. CREDIT ARRANGEMENTS

The Company has lines of credit of \$5,700,000 with banks for short-term borrowings at the prime rate in effect at the date of the loan. On \$1,000,000 of such line, the Company is required to maintain compensating bank balances equal to 5% of the line of credit plus 5% of any amounts borrowed. There were no short-term bank borrowings during 1998 or 1997.

8. SHAREHOLDERS' EQUITY

The Company has authorized 60,000 shares of cumulative, \$50 par value preferred stock and 700,000 shares of undesignated, \$1 par value (subordinated) stock, none of which is outstanding.

9. EARNINGS PER SHARE

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

	1998	1997	1996
Basic Earnings Per Share:			
Income available to common shareowners	\$7,602,217	\$6,048,434	\$4,502,170
Weighted average shares outstanding	6,959,310	7,024,021	7,172,299
Earnings Per Share - Basic	\$ 1.09	\$ 0.86	\$ 0.63
Diluted Earnings Per Share:			
Income available to common shareowners	\$7,602,217	\$6,048,434	\$4,502,170



Weighted average shares			
outstanding	6,959,310	7,024,021	7,172,299
Dilutive shares issuable in con-			
nection with stock option plans	418,145	339,820	245,920
Less shares purchasable with proceeds	(342,297)	(291,946)	230,144)
Total Shares	7,035,158	7,071,895	7,188,075
Earnings Per Share - Diluted	\$ 1.08	\$ 0.86	\$ 0.63
	=====	=====	=====

Options to purchase 82,360 shares of common stock at a range of \$14.875 to \$15.75 were outstanding during 1998 but were not included in the computation of the diluted earnings per share because the options' exercise price was greater than the average market price of the common shares.

#### 10. STOCK OPTIONS

The Company has stock option plans for key employees and directors that provide for the granting of incentive and nonqualified stock options. Under the plans, options are granted at an exercise price equal to the fair market value of the underlying common stock at the date of grant, and may be exercisable for up to 10 years. All options are exercisable when granted. At June 30, 1998, 241,065 shares were available for future grants. The Company applies APB Opinion 25 and related interpretations in accounting for its stock option plans, as permitted under Financial Accounting Standards Board Statement No. 123 ACCOUNTING FOR STOCK-BASED COMPENSATION (SFAS 123). Accordingly, no compensation cost has been recognized for its stock option plans. Had the compensation cost for the Company's incentive stock option plans been determined based on the fair value at the grant dates for awards under those plans consistent with the methodology of SFAS 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated on next page:

		1998	1997	1996
		-----	-----	-----
Net Income	As reported	\$ 7,602,217	\$ 6,048,434	\$ 4,502,170
	Pro forma	7,462,506	5,907,480	4,365,091
Earnings per share:				
Basic	As reported	1.09	0.86	0.63
	Pro forma	1.07	0.84	0.61
Diluted	As reported	1.08	0.86	0.63
	Pro forma	1.06	0.84	0.61

The fair value of each option grant is estimated on the date of grant using the Black-Sholes option-pricing model with the following weighted average assumptions used for grants in 1998, 1997 and 1996, respectively: dividend yield of 4.2%, 4.6% and 4.4%; expected volatility of 26.3%, 27.3% and 28.2%; interest rates of 6.8%, 6.9% and 6.8%; and an expected life of 10 years on all options.

A summary of the status of the Company's stock option plans as of June 30, 1998, 1997 and 1996 and the changes during the years ending on those dates is presented below:

	Shares	Price Range
	-----	-----
June 30, 1995 Outstanding	276,670	\$10.50 - 15.75
Granted	91,950	11.25
Cancelled	(26,140)	10.50 - 14.875
June 30, 1996 Outstanding	342,480	10.50 - 15.75
Granted	103,400	10.25 - 12.75
Exercised	(6,800)	10.25 - 10.50
Cancelled	(6,400)	10.50 - 14.875
June 30, 1997 Outstanding	432,680	10.25 - 15.75
Granted	88,775	11.44 - 12.66
Exercised	(10,250)	10.25 - 12.75
Cancelled	(10,700)	10.25 - 15.75
June 30, 1998 Outstanding	500,505	\$10.25 - 15.75
	=====	

Significant option groups outstanding at June 30, 1998 and related weighted-average exercise price and remaining life information follows:

Grant Date	Options Outstanding	Weighted-Average	
		Exercise Price	Remaining Life (Years)
-----	-----	-----	-----
December 12, 1991	61,210	10.500	1.4
July 6, 1993	74,360	14.875	2.9
July 28, 1994	75,560	10.500	6.0
August 16, 1995	81,950	11.250	7.1
July 30, 1996	90,050	10.250	8.1
November 7, 1997	83,375	11.438	9.3
All other	34,000	13.008	6.8
Total	500,505		
	=====		

#### 11. PENSION AND RETIREMENT PLANS

The Company sponsors various defined contribution pension and retirement plans which cover substantially all employees, other than employees covered by multiemployer 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 \$1,373,000 in 1998, \$1,352,000 in 1997 and \$1,326,000 in 1996 including \$311,000 in 1998, \$300,000 in 1997 and \$287,000 in 1996 for the Company's matching contribution to retirement savings plans. The Company's cost for pension plans is determined as 2% - 4% of each covered employee's wages.

The Company's matching contribution for the retirement savings plans is 25% - 50% of employee contributions (up to 4% of their 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 \$1,184,000 in 1998, \$1,102,000 in 1997 and \$1,135,000 in 1996.

#### 12. MANAGEMENT INCENTIVE PLAN

The Company has an incentive plan that provides for shares of common stock to be awarded to key employees based on a 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 33 1/3% of the stock received by the employee on the award date and the remaining shares issued after one and two years. Under the plan 35,459 and 31,053 shares were awarded, and the amounts charged to income were \$406,000 and \$365,000 in 1998 and 1997 respectively. No shares were awarded in 1996. At June 30, 1998, 312,798 shares were available for future grants.

#### 13. SUPPLEMENTARY QUARTERLY FINANCIAL INFORMATION

(UNAUDITED - in thousands of dollars, except per share amounts)

Quarters

-----

	1st	2nd	3rd	4th
1998:				
Net Sales .....	\$55,159	\$56,260	\$62,090	\$62,616
Gross Profit .....	11,292	11,947	13,773	13,768
Net Income .....	1,030	2,100(1)	2,106	2,366
Earnings Per Share:				
Basic .....	0.15	0.30	0.30	0.34
Diluted .....	0.15	0.30	0.30	0.33
Dividends Per Share ..	0.12	0.12	0.12	0.12
* Market Price				
High .....	12 7/8	14 1/8	14 5/8	15
Low .....	11 5/8	11 1/4	12	12

(1) Includes a non-taxable gain from life insurance proceeds of approximately \$720,000.

	Quarters			
	1st	2nd	3rd	4th
1997:				
Net Sales .....	\$52,019	\$50,552	\$56,803	\$60,053
Gross Profit .....	11,374	10,775	11,802	12,387
Net Income .....	1,462	1,203	1,686(1)	1,697
Earnings Per Share:				
Basic .....	0.21	0.17	0.24	0.24
Diluted .....	0.21	0.17	0.24	0.24
Dividends Per Share	0.12	0.12	0.12	0.12
* Market Price				
High.....	12	13 3/4	13 5/8	12 1/2
Low.....	10 1/4	11 1/2	10 3/4	10 1/2

(1) Includes a gain on the sale of the Sweetwater, Tennessee facility of approximately \$350,000.

\* Reflects the market price as quoted by the National Association of Securities Dealers, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

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

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 years ended June 30, 1998, 1997 and 1996. Amounts presented are percentages of the Company's net sales.

	For the Years Ended June 30,		
	1998	1997	1996
Net Sales	100.0%	100.0%	100.0%
Cost of goods sold	78.5	78.9	78.8
Gross margin	21.5	21.1	21.2
Selling, general & administrative expense	17.3	17.5	18.2
Operating income	4.2	3.6	3.0
Other income, net	.7	.7	.4
Income before income taxes	4.9	4.3	3.4
Income tax expense	1.7	1.5	1.2
Net income	3.2%	2.8%	2.2%

FISCAL 1998 COMPARED TO FISCAL 1997

Net sales for 1998 increased by \$16,699,000 or 8% compared to 1997. Residential sales volume increased \$5,647,000 or 4%. Recreational vehicle seating sales increased \$9,293,000 or 14%. Approximately \$7,026,000 of this increase relates to the acquisition of certain assets of Dygert Seating, Inc. in March 1997. Commercial volume increased \$1,759,000 or 8%.

Gross margin increased \$4,442,000 to \$50,780,000 or 21.5% of sales, in 1998, from \$46,338,000 or 21.1% in 1997. The gross margin increase was due to improved utilization of available production capacity and changes in product mix.

Selling, general and administrative expenses as a percentage of sales were 17.3% and 17.5% for 1998 and 1997, respectively. The cost percentage decrease was due to management's control of fixed costs.

Net other income was \$1,659,000 in 1998 and \$1,585,000 for 1997. Each year contains amounts which are non-recurring in nature. During the second quarter of 1998 the Company realized a non-taxable gain on the proceeds of life insurance of \$720,000. In fiscal year 1997, the Company sold its production facility in Sweetwater, Tennessee which resulted in a gain of \$550,000 before income taxes.

The effective tax rate in 1998 was 34.0% compared to 36.2% in 1997. The lower effective income tax rate is attributable to the non-taxable gain on the proceeds of life insurance.

The above factors resulted in 1998 fiscal year earnings of \$7,602,000 or \$1.09 per share (basic) compared to \$6,048,000 or \$0.86 per share (basic) in fiscal 1997, a net increase of \$1,554,000 or \$0.23 per share.

FISCAL 1997 COMPARED TO FISCAL 1996

Net sales for 1997 increased by \$14,418,000 or 7% compared to 1996. Residential sales volume increased \$4,960,000 or 4%. Recreational vehicle seating sales increased \$6,481,000 or 11%. Approximately \$6,200,000 of this increase related to the acquisition of Dygert Seating, Inc. Commercial volume increased by \$2,977,000 or 16%.

Cost of goods sold for fiscal 1997 increased by \$11,638,000 as compared to 1996 due to the volume increase. Gross margin was 21.1% and 21.2% in 1997 and 1996, respectively.

Selling, general and administrative expenses increased by \$1,171,000 due primarily to the Dygert acquisition and volume related increases in variable expenses. Selling, general and administrative expenses, as a percentage of sales, decreased from 18.2% in fiscal 1996 to 17.5% in fiscal 1997. This percentage decrease reflects the Company's ability to control fixed costs in relation to the increased volume.

Interest and other income increased by \$799,000 during 1997, primarily due to a gain of approximately \$550,000 on the sale of the Sweetwater, Tennessee facility.

The above factors resulted in 1997 fiscal year earnings of \$6,048,000 or \$0.86 per share (basic) compared to \$4,502,000 or \$0.63 per share (basic) in fiscal 1996, a net increase of \$1,546,000 or \$0.23 per share.

LIQUIDITY AND CAPITAL RESOURCES

Working capital at June 30, 1998 is \$50,549,000 which includes cash, cash equivalents and investments of \$15,342,000. Working capital increased by \$6,192,000 from the June 30, 1997 amount.

Net cash provided by operating activities was \$13,284,000, \$13,114,000 and \$6,532,000 in 1998, 1997 and 1996, respectively. Fluctuations in net cash provided by operating activities are primarily the result of changes in net income and changes in working capital accounts.

Capital expenditures were \$2,392,000, \$5,273,000 and \$3,298,000 for 1998, 1997 and 1996, respectively. These expenditures were for manufacturing and

delivery equipment. In addition, during fiscal 1997, \$6,934,000 was used to purchase assets of Dygert Seating, Inc. Projected capital spending for fiscal 1999 is \$7,500,000, with approximately \$2,000,000 for expansion of our Dublin, Georgia facility. The remainder of the projected capital expenditures will be manufacturing and delivery equipment. The funds for projected capital expenditures are expected to be provided by cash generated from operations and available cash.

Financing activities utilized net cash of \$5,415,000, \$5,671,000 and \$4,740,000 in 1998, 1997 and 1996, respectively. During 1996, the Company's Board of Directors approved the repurchase of up to 500,000 shares of the Company's common stock. Under that authority the Company repurchased 176,489, 186,345 and 132,453 shares of its outstanding common stock during 1998, 1997 and 1996, respectively. The Board of Directors may consider the purchase of additional shares of the Company's common stock from time to time based on market valuation of the stock. It is anticipated that such a buy back would be funded by cash generated by operations and available cash. Dividend payments were \$0.48 per share in each year.

The Board of Directors determines dividend levels based on the Company's ability to pay its obligation, capital expenditure requirements and other related factors. The Company has paid dividends on its common stock for 226 consecutive quarters and expects to continue regular dividend payments. As of June 30, 1998 there were approximately 2,300 shareholders of the Company's outstanding common stock.

#### FINANCING ARRANGEMENTS

The Company has lines of credit of \$5,700,000 with banks for short-term borrowings, which have not been utilized since 1979. The Company has outstanding borrowings of \$1,950,000 in the form of variable rate demand industrial development revenue bonds. During fiscal 1998, the weighted average interest rate on the industrial development revenue bonds was 4.06%.

#### OTHER

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

#### ACCOUNTING PRONOUNCEMENTS

In February 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 132, EMPLOYERS' DISCLOSURES ABOUT PENSIONS AND OTHER POSTRETIREMENT BENEFITS, which requires additional reporting disclosures related to employer pension plans. The provisions of this statement will be effective for the Company beginning July 1, 1998, and are not expected to have a material effect on its results of operations or financial position.

#### FORWARD-LOOKING STATEMENTS

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 of the Company, including statements contained in the Company's filings with the Securities and Exchange Commission and in its reports to stockholders.

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

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

-----  
[PHOTO]  
OUTSTANDING SOFA DESIGN FEATURES "SLEIGH-BED" ARMS; A SCROLLED-LEG COFFEE TABLE, ALSO FROM FLEXSTEEL, IS A BEAUTIFUL COMPANION PIECE.

PLANT LOCATIONS

\*Flexsteel Industries, Inc.  
DUBUQUE, IOWA 52001  
(319) 556-7730  
P. M. Crahan, General Manager

Flexsteel Industries, Inc.  
DUBLIN, GEORGIA 31040  
(912) 272-6911  
M. C. Dixon, General Manager

Flexsteel Industries, Inc.  
LANCASTER, PENNSYLVANIA 17604  
(717) 392-4161  
T. P. Fecteau, General Manager

Flexsteel Industries, Inc.  
RIVERSIDE, CALIFORNIA 92504  
(909) 354-2440  
T. D. Burkart, General Manager

Flexsteel Industries, Inc.  
NEW PARIS, INDIANA 46553  
(219) 831-4050  
G. H. Siemer, General Manager

Wood Products Division  
HARRISON, ARKANSAS 72601  
(501) 743-1101  
M. J. Feldman, General Manager

Metal Division  
DUBUQUE, IOWA 52001  
(319) 556-7730  
J. E. Gilbertson, General Manager

Commercial Seating Division  
STARKVILLE, MISSISSIPPI 39760  
(601) 323-5481  
S. P. Salmon, General Manager

Dygert Seating Division  
ELKHART, INDIANA 46515  
(219) 262-4675  
D. L. Dygert, General Manager

Vancouver Distribution Center  
VANCOUVER, WASHINGTON 98668  
(206) 696-9955  
R. Heying, Supervisor

\* EXECUTIVE OFFICES

PERMANENT SHOWROOMS  
Dubuque, Iowa  
High Point, North Carolina  
San Francisco, California

- - - - -  
VISIT US ON THE INTERNET  
<http://flexsteel.com>  
- - - - -

DIRECTORS AND OFFICERS  
Jack B. Crahan  
CHAIRMAN OF THE BOARD OF DIRECTORS  
K. Bruce Lauritsen

PRESIDENT  
CHIEF EXECUTIVE OFFICER  
DIRECTOR  
Edward J. Monaghan  
EXECUTIVE VICE PRESIDENT  
CHIEF OPERATING OFFICER  
DIRECTOR

James R. Richardson  
SENIOR VICE PRESIDENT, MARKETING  
DIRECTOR

Jeffrey T. Bertsch  
VICE PRESIDENT  
DIRECTOR

L. Bruce Boylen  
RETIRED VICE PRESIDENT  
FLEETWOOD ENTERPRISES, INC.  
DIRECTOR

Patrick M. Crahan  
VICE PRESIDENT  
DIRECTOR

John R. Easter  
RETIRED VICE PRESIDENT  
SEARS, ROEBUCK & COMPANY  
DIRECTOR

Thomas E. Holloran  
PROFESSOR, GRADUATE SCHOOL OF  
BUSINESS, UNIVERSITY OF ST. THOMAS  
ST. PAUL, MINNESOTA  
DIRECTOR

Art D. Richardson  
RETIRED SENIOR VICE PRESIDENT  
FLEXSTEEL INDUSTRIES, INC.  
DIRECTOR

Carolyn T. B. Bleile  
VICE PRESIDENT

Thomas D. Burkart  
SENIOR VICE PRESIDENT, VEHICLE SEATING

Kevin F. Crahan  
VICE PRESIDENT

Keith R. Feuerhaken  
VICE PRESIDENT

James E. Gilbertson  
VICE PRESIDENT

James M. Higgins  
VICE PRESIDENT, COMMERCIAL SEATING

Ronald J. Klosterman  
VICE PRESIDENT, FINANCE  
CHIEF FINANCIAL OFFICER  
SECRETARY

Michael A. Santillo  
VICE PRESIDENT

EXECUTIVE COMMITTEE  
Jack B. Crahan, Chairman  
Jeffrey T. Bertsch  
Patrick M. Crahan  
K. Bruce Lauritsen  
Edward J. Monaghan  
James R. Richardson

AUDIT & ETHICS COMMITTEE  
Thomas E. Holloran, Chairman  
John R. Easter  
Art D. Richardson

[LOGO] FLEXSTEEL (R)  
AMERICA'S SEATING SPECIALISTS

NOMINATING & COMPENSATION COMMITTEE  
L. Bruce Boylen, Chairman  
John R. Easter  
Thomas E. Holloran

MARKETING COMMITTEE  
John R. Easter, Chairman  
L. Bruce Boylen  
Art D. Richardson

TRANSFER AGENT AND REGISTRAR  
Norwest Capital Resources  
P. O. Box 738  
South St. Paul,  
Minnesota 55075-0738

GENERAL COUNSEL  
Irving C. MacDonald  
Minneapolis, Minnesota  
O'Connor and Thomas, P.C.  
Dubuque, Iowa

NATIONAL OVER THE COUNTER  
NASDAQ Symbol - FLXS

ANNUAL MEETING  
Tuesday,  
December 15, 1998, 3:30 p.m.  
The Marquette  
710 Marquette Avenue, 3rd floor  
Minneapolis, Minnesota 55402

AFFIRMATIVE ACTION POLICY  
It is the policy of Flexsteel  
Industries, Inc. that all employees  
and potential employees shall be  
judged on the basis of  
qualifications and ability, without  
regard to age, sex, race, creed,  
color or national origin in all  
personnel actions. No employee or  
applicant for employment shall  
receive discriminatory treatment  
because of physical or mental  
disability in regard to any position  
for which the employee or applicant  
for employment is qualified.  
Employment opportunities and job  
advancement opportunities will be  
provided for qualified disabled  
veterans and veterans of the Vietnam  
era. This policy is consistent with  
the Company's plan for 'Affirmative  
Action' in implementing the intent  
and provisions of the various laws  
relating to employment and  
non-discrimination.

ANNUAL REPORT ON FORM 10-K AVAILABLE  
A copy of the Company's annual  
report on Form 10-K, as filed with  
the Securities and Exchange  
Commission, can be obtained without  
charge by writing to: Office of the  
Secretary, Flexsteel Industries,  
Inc., P. O. Box 877, Dubuque, Iowa  
52004-0877.

(C)1998 FLEXSTEEL INDUSTRIES, INC.

[PHOTO]

Photos courtesy of Holiday Rambler

Motor homes are more luxurious than ever, with more homelike amenities. This is beautifully exemplified by the 1999 Endeavor(R) Diesel motor home by Holiday Rambler(R) The maker says the Endeavor(R) offers more of the performance, beauty and luxury buyers seeking when they step up to a Diesel motor coach.

[PHOTO]

Buyers have a wide choice of floor plans, interior color schemes, appliances, and furnishings. Not the least of these are the choices in Flexsteel seating. Standard are handsome leather-faced captain's chairs. Other furnishings include sleepers and swivel or reclining chairs, many also with leather facings.

-----  
[LOGO] FLEXSTEEL(R)  
AMERICA'S SEATING SPECIALISTS

-----  
P.O. BOX 877 \* DUBUQUE IA 52004-0877



## INDEPENDENT AUDITOR'S REPORT

Flexsteel Industries, Inc.:

We have audited the financial statements of Flexsteel Industries, Inc. (the Company) as of June 30, 1998 and 1997 and for each of the three years in the period ended June 30, 1998, and have issued our report thereon dated August 6, 1998, such financial statements and report are included in your 1998 Annual Report to Stockholders and are incorporated herein by reference. Our audits also included the financial statement schedule of Flexsteel Industries, Inc., listed in Item 14. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement schedule based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic financial statement taken as a whole, presents fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP

Minneapolis, Minnesota  
August 6, 1998

CONSENT OF INDEPENDENT AUDITORS

Flexsteel Industries, Inc.:

We consent to the incorporation by reference in Registration Statement No. 33-1836 on Form S-8 as amended by Post-Effective Amendment No. 1 for the Flexsteel Salaried Employees' Savings Plan 401(k) and in Registration Statement No. 2-86782 on Form S-8 as amended by Post-Effective Amendment No. 3 for the Flexsteel 1983 Stock Option Plan and in Registration Statement No. 33-26267 on Form S-8 for the Flexsteel 1989 Stock Option Plan and in Registration Statement No. 333-1413 on Form S-8 for the Flexsteel 1995 Stock Option Plan of our reports dated August 6, 1998 appearing in and incorporated by reference in the Annual Report on Form 10-K of Flexsteel Industries, Inc. for the year ended June 30, 1998.

DELOITTE & TOUCHE LLP

Minneapolis, Minnesota  
September 25, 1998

12-MOS  
JUN-30-1998  
JUN-30-1998  
5,464,261  
9,877,784  
30,920,752  
2,198,000  
26,607,296  
74,089,823  
74,428,936  
51,333,347  
104,673,141  
23,540,812  
0  
0  
0  
6,794,730  
71,285,074  
104,673,141  
236,125,280  
238,140,262  
185,345,398  
226,613,045  
40,911,581  
0  
356,066  
11,527,217  
3,925,000  
7,602,217  
0  
0  
0  
7,602,217  
1.09  
1.08

12-MOS	12-MOS	3-MOS	3-MOS	3-MOS
JUN-30-1996	JUN-30-1997	JUN-30-1997	JUN-30-1997	JUN-30-1997
JUN-30-1996	JUN-30-1997	SEP-30-1996	DEC-31-1996	MAR-31-1997
3,867,742	4,445,327	3,751,064	4,128,777	2,990,130
8,940,603	5,041,154	10,161,018	9,068,155	4,785,714
26,616,981	28,147,941	28,790,144	24,804,695	31,637,651
2,152,810	2,799,000	2,229,172	2,235,324	2,430,173
26,082,857	26,985,554	25,340,868	26,944,419	26,833,169
66,097,427	65,247,093	68,266,307	65,322,034	65,924,328
67,257,656	73,176,562	69,056,742	69,582,116	72,528,758
44,211,432	46,962,157	44,968,877	45,845,796	45,966,862
95,874,164	99,172,677	99,110,029	95,918,463	99,512,075
18,721,916	20,890,230	22,127,400	18,424,614	22,011,508
7,095,044	35,000	0	35,000	35,000
0	6,927,310	7,019,507	7,024,201	6,957,435
0	0	0	0	0
0	0	0	0	0
67,052,357	68,310,719	66,953,875	67,456,901	67,527,885
95,874,164	99,172,677	99,110,029	95,918,463	99,512,075
205,008,245	219,426,736	52,019,059	50,551,568	56,803,035
206,140,197	221,357,263	52,320,429	50,886,189	57,614,464
161,450,649	173,088,406	40,644,601	39,776,718	45,000,753
199,088,027	211,883,829	49,941,980	48,912,901	54,908,932
37,279,056	38,450,275	9,297,379	9,136,183	9,908,179
0	0	0	0	0
358,322	345,148	86,967	84,895	84,349
7,052,170	9,473,434	2,291,482	1,888,393	2,621,183
2,550,000	3,425,000	830,000	685,000	935,000
4,502,170	6,048,434	1,461,482	1,203,393	1,686,183
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
4,502,170	6,048,434	1,461,482	1,203,393	1,686,183
0.63	0.86	0.21	0.17	0.24
0.63	0.86	0.21	0.17	0.24

3-MOS	3-MOS	3-MOS	3-MOS
JUN-30-1998	JUN-30-1998	JUN-30-1998	JUN-30-1998
SEP-30-1997	SEP-30-1997	DEC-31-1997	MAR-31-1998
	4,776,116	4,395,976	3,934,552
5,164,859		7,900,556	9,495,915
31,037,015		26,220,644	33,255,660
2,308,622		2,312,371	2,174,281
25,396,685		27,430,899	26,664,677
67,100,036	67,236,709	74,188,576	74,504,062
	74,467,182	74,363,075	74,504,062
48,146,497		49,218,373	50,350,448
101,227,076		99,265,823	105,726,637
22,246,284	18,968,697	23,858,476	
	0	0	0
6,958,363	6,955,174	6,964,035	
	0	0	0
	0	0	0
	68,969,711	70,280,034	71,859,208
75,928,074	99,265,823	105,726,637	
	55,159,124	56,260,249	62,089,586
55,405,393	57,354,389	62,383,693	
	43,867,490	44,312,905	48,316,681
53,704,281		54,377,037	58,993,241
9,836,791	10,064,132	10,676,560	
	0	0	0
86,262	87,297	84,382	
1,614,850	2,890,055	3,306,070	
	585,000	790,000	1,200,000
1,029,850	2,100,055	2,106,070	
	0	0	0
	0	0	0
	0	0	0
	1,029,850	2,100,055	2,106,070
	0.15	0.30	0.30
	0.15	0.30	0.30