

Keller Furniture, Inc.

Shareholder Letter

January 4, 2005

Our Board of Directors met January 3, 2005 to discuss a significant change in strategic direction for Keller Furniture, Inc. (the "Company"). This letter is not intended to interpret historical financial results of the Company but instead will provide shareholders with management's perspective on the current business prospects of the Company. Although financial statements are not a part of this letter, the Company plans to provide regular quarterly financial statements to our shareholders along with a Shareholder Letter sixty to ninety days after calendar quarter end. Management knows that it is important to communicate to our shareholders, but we do not intend to update shareholders outside of these regular quarterly reports and our annual shareholder meeting unless significant decisions or events warrant additional shareholder communication. Today, we believe special shareholder communication is warranted.

I would like to begin by addressing the two major issues facing the Company that were discussed in our last Shareholder Letter dated November 15, 2004. The two largest issues facing the Company were the Company's ability to generate orders and sales volumes and the ability to import quality product on time from China. I will further address these two issues together below since they are interrelated.

In December 2004 the Company was able to increase backlog through additional order volume. The increased volume was driven almost entirely by our major accounts such as Havertys. As reported in our last Shareholder Letter, dated November 15, 2004, we experienced significant product quality issues with our first product shipment to Havertys in October. Even given these product quality issues, Havertys orders have increased during the fourth quarter. The increase was a result of additional orders for our second Havertys private label product line called Partners. This group was planned to be on Havertys retail floors in early December. As of the date of this letter the Company has yet to receive all Partners product from China; therefore, we have not been able to ship any of this group to Havertys. The Company's other products have similarly experienced significant delays in target ship dates. In the paragraph below, I will address why the Company has not been able to bring product in on time from China.

As you know, I have previously reported on the tariff imposed on bedroom furniture imported from China. My last report to you in the Shareholder Letter dated November 15, 2004 indicated that most tariff rulings were final and that our tariff stood at 8.64% on bedroom furniture imported from China. An updated tariff rate was released during the last week of December 2004 which made a slight year-end adjustment to 6.65% from 8.64% for Keller. This is very good news for both the large producers of case goods and for major furniture retailers. It has been well documented for several years that profitable large-scale domestic manufacturing of case goods is no longer a viable business strategy. When large tariff rate threats loomed over China earlier this year, furniture production capacity began rapid migrating to other Asian countries such as Vietnam and Indonesia. The recent low tariff rates have caused a reversal of that production migration. Since China infrastructure and production capabilities are superior to many other Asian countries and the systems from material procurement to logistics are more

mature, China furniture factories are now again in very high demand. Before the tariff, approximately 300 furniture plants in China were manufacturing case goods for export to the U.S. Now, only approximately 130 plants have the benefit of the favorable 6.65% tariff on bedroom furniture. This places further strain on the supply chain as these select factories get larger as they absorb volume from those without favorable tariff rates.

The last issue I would like to discuss that has contributed to our sourcing challenges is the continued consolidation of furniture retailers and their particular supply chain strategies. In my last two shareholder letters, you will find that the Company identified consolidation of the furniture retailer base as the number one significant industry trend. In previous years, many retailers did not have sufficient volume to go direct to China factories for their products. As consolidation has continued, many of the larger retailers have gained sufficient volume to go direct to low cost Asian producers. The tariff threat last year and for most of this year temporarily slowed the evolution of this process. Had the tariff rates in China been high and had manufacturing moved to other immature countries outside of China, retailers would not have had the ability to build, train, and develop such attractive new product sources with such speed. With the China tariff settling in the single digits, many large retailers are now greatly accelerating their efforts to source direct from the factory in China. One of the many examples of this would be Havertys, who recently announced the selection of a new senior leader to manage their import interests on the ground in Asia.

It is the strong opinion of the management of the Company and its Board of Directors that to survive and prosper as a supplier to the furniture retailer, critical mass in the form of size and presence in Asia is now essential. The Company is not in that position currently, and given the marketplace dynamics, we do not believe it is reasonable to believe we can get there soon and without significant additional investment. Based on thorough analysis, discussion, and review, the Company management and Board of Directors have decided to take the following actions.

Effective today, all furniture operations and assets of the Company are for sale. The decision has been made not to sell the legal entity, but to sell only the furniture operations. This includes, but is not limited to, our customer list, ten product groups, marketing materials, product inventory, web site, High Point show room, and the "Keller Furniture" name. The second major announcement is that the Company is commencing a search process to purchase a new business using its remaining cash and other assets.

The Company plans to purchase a business in 2005 and is generally targeting service industries, light manufacturing, and distribution companies. We are not targeting businesses in the furniture industry. The company began exploring this option in late December and has preliminarily identified approximately twelve companies for consideration.

The Company has greatly reduced its expenses, both fixed and variable, through the consolidation of operations over the past eighteen months. The Company has not borrowed under the recently established bank line of credit. The Company currently has fifteen full time employees working primarily in the areas of sales, marketing, operations, finance, customer service, warehousing, and logistics. We also have approximately twenty-five independent sales representatives across the United States and Canada. The Company expects to have

approximately four full-time employees at the end of February 2005, which does not include contract labor used primarily for warehouse operations. These full-time employees will be focused on filling final furniture orders, finding a buyer for Company furniture operations and assets and conducting due diligence on prospective acquisition candidates.

Ken Fonville, President of the Keller Design Center and a member of the Company's Board of Directors resigned both positions last week to pursue other opportunities. I will be leaving the Keller management team on February 15th to assist the Company in further lowering expenses. I plan to remain on the Board of Directors and to be active in assisting the Company in identifying an attractive business to acquire. Effective February 15th, David Richardson, our current Chief Operating Officer, will become the President and Chief Executive Officer of Keller.

After considerable deliberation, Company management and the Board of Directors believe it to be in the best interest of all shareholders to sell the furniture operations and to pursue an acquisition in 2005. If the Company is not successful in its search for an attractive operating business then all remaining assets will be liquidated and all obligations will be settled and any remaining value will be returned to the shareholders.

The Company and its management team, along with our Board of Directors, would like to thank all of you for your continued support of the Company. None of you are taken for granted, and as always, we will continue to communicate on a regular basis and answer questions as they arise.

Sincerely,

A handwritten signature in cursive script that reads "Keith Williams".

Keith Williams

President & CEO