

# Shareholder Letter

May 26, 2006

## KellerFurniture

The Keller Manufacturing Company, Inc.  
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The purpose of this communication is to provide an update on what has happened at Keller since our last shareholder letter in October of 2005, to provide 2005 audited financial statements, and to provide unaudited financial statements for the first quarter of 2006. We have posted this letter, other shareholder letters, press releases, and financial statements on our web site (click on "About Us") for your reference.

As you know, Keller acquired an 85.3% equity interest in Louisville-based Paragon Door Designs, Inc. ("Paragon") in January 2006. Keller paid \$420,000 for its equity interest and contributed an additional \$720,000 to Paragon for debt repayment, for a total investment of \$1,140,000. After the closing of the Paragon transaction, Paragon obtained a \$600,000 credit facility with a commercial bank. In order to obtain this credit facility, it was necessary for Paragon to obtain the personal guarantees of certain individuals (all of whom are Keller shareholders and some of whom are on the Keller Board of Directors) for the entire \$600,000. In order to compensate these individuals during 2006 for the personal guarantees they are providing, Keller issued warrants to them pursuant to which they can purchase shares of Keller's common stock for \$.01 per share. The warrants, in the aggregate, are exercisable into 60,000 shares of Keller's common stock at any time during the next 10 years.

Founded in 1993, Paragon manufactures custom steel and fiberglass residential entry doors and storm doors with a variety of glass styles and finishes. Paragon sells through a network of window and door dealers, remodelers, and home improvement companies in 20 states. Paragon has 27 employees and has been profitable for many years with \$3,670,436 of sales and net income of \$20,271 in 2005. Paragon reported first quarter 2006 sales of \$946,391 and a net loss of (\$29,503). At March 31, 2006, Paragon had total assets of \$1,038,426 and total liabilities of \$686,299. Paragon's founder, President, and Chief Executive Officer is David N. Burks, an industry veteran with over 25 years of experience. Mr. Burks owns the balance of the equity of Paragon not acquired by Keller. For more information about the products offered by Paragon, please visit [www.paragondoor.com](http://www.paragondoor.com).

In April of 2006, Keller announced publicly that it had initiated formal action with the Pension Benefit Guaranty Corporation ("PBGC") to terminate The Keller Manufacturing Company, Inc. Employees' Pension Plan ("Plan") in what is known as a "distress termination" (the press release issued by Keller is posted on our website). Keller's board of directors has determined that Keller can no longer afford to maintain the Plan. Further, Keller's board has determined that the business associated with Paragon cannot support the ongoing liabilities associated with the Plan. Accordingly, Keller asked the PBGC to approve termination of the Plan. Keller is hopeful that it will be able to work with the PBGC to finally resolve all Plan liabilities pursuant to terms which are acceptable to the PBGC and affordable for Keller and its new subsidiary, Paragon. However, there can be no assurance that the PBGC will approve the termination of the Plan or that the PBGC will be willing to work with Keller and Paragon to resolve this liability in a manner which will allow Keller to continue to own a significant interest in Paragon. It is possible that the PBGC will require Keller or Paragon, or both, to liquidate their business and assets and contribute the proceeds toward the Keller pension liability.

The Plan's actuaries have calculated an accrued pension liability of \$3,957,368 at December 31, 2005, up from \$3,881,320 at December 31, 2004. However, based on the alternative actuarial methodology used by the PBGC for calculating the pension plan liability on a "termination basis", this accrued pension liability may be substantially higher.

The initial determination by the Plan's actuaries is that retirement benefits for approximately 98% of the participants in the Plan should be fully guaranteed by the PBGC and not reduced as a result of the distress termination (this is subject to review and approval by the PBGC). The Plan's actuaries also believe that a small portion of the retirement benefits for those Plan participants who had earnings over \$170,000 annually (less than 2% of the Plan participants) will not be fully guaranteed by the PBGC. The Plan's actuaries estimate that these higher wage earners will experience a minimal reduction in their guaranteed benefits (less than 5%). Keller is communicating directly with all Plan participants regarding the termination action and the impact it may have on their benefits, if any. More information about the funding status of the Plan can be found in the footnotes to the 2005 audited financial statements attached to this letter. We continue to seek buyers for the "Keller Furniture" brand name; however, we do not believe that it can be sold for a material amount of money. We also continue to seek buyers for our last remaining parcel of real estate (approximately 30 acres of vacant land in New Salisbury, Indiana). The land has been listed for sale for approximately nine months and we have not received any offers to date. It is possible that the odd shape and location of the land will make it difficult to sell.

Several ex-employees continue to assist the Board on a contract basis. The members of the Keller Board of Directors do not receive any compensation for their services. At this time, Keller has no employees and no remaining compensation obligations to former employees. All of Keller's office and warehouse leases have terminated except for the lease covering the Company's corporate office in Louisville, which has been fully paid through December 31, 2006. There can be no guarantee that Keller will ever benefit from its approximate \$22 million of unused net operating losses (NOL's).

Given these factors, Keller shareholders should not expect a dividend or cash distribution in the near term or thereafter as our liabilities significantly exceed our assets.

Keller shares regularly trade on the Pink Sheets over-the-counter market under the symbol "KMFI" or "KMFI.pk". Shares can be bought or sold by contacting a licensed broker dealer since there are several market makers for Keller shares.

Sincerely,

Ronald W. Humin

Chairman of the Board of Directors  
The Keller Manufacturing Company, Inc.