A Century of Progress

KNAPE & VOGT 1898 1998

ANNUAL REPORT

A Century of Progress

Knape & Vogt is celebrating its 100th anniversary in 1998, and we can proudly say we have experienced a century of progress. From our modest beginnings to today's position as a market leader, our journey has been filled with challenges and accomplishments.

Knape & Vogt's heritage of innovation and adaptability has created an atmosphere of growth for our products, our processes and our employees. These traits were critical to our longevity and success and are still cornerstones of the Company today. Moving forward, our vision as a Company is to look at our past and learn for the future. Knape & Vogt's ongoing growth in our first 100 years was a result of this dedication. We are committed to carrying on this legacy of those who have gone before us.

The simple and clear message on the cover, "A Century of Progress," is a tribute to the thousands of Knape & Vogt employees, shareholders, customers and suppliers who have partnered with us in our growth. We have achieved numerous milestones together and now have the foundation for our next century of progress.

Corporate Profile Knape & Vogt Manufacturing Company is the world's leading designer, manufacturer and distributor of shelving systems, drawer slides and other storage-related products. The Company markets and sells its products to original equipment manufacturers, specialty distributors, warehouse clubs, hardware chains and every major home center in the country.

KV's major product categories include precision, Euro-style and utility drawer slides for wood and metal office furniture; wall-attached shelving units; kitchen and bath storage products; and specialty hardware products for do-it-yourself consumers.

Knape & Vogt implemented Economic Value Added, or EVA, at the beginning of fiscal 1998. KV uses EVA to determine the degree businesses, products and capital assets are adding to shareholder value. To increase EVA, Knape & Vogt must accomplish the following: increase operating profits without using additional capital; invest capital in projects that earn more than the cost of capital; and divert or liquidate capital from business activities that do not provide adequate returns. EVA is a measurement tool designed to better align management's priorities with those of shareholders, including linking operational and financial targets to management compensation. Knape & Vogt reported an 18% improvement in EVA in fiscal 1998.

The corporate philosophy at Knape & Vogt emphasizes building lasting relationships with customers and suppliers based on quality and value, maintaining a desirable workplace for employees, providing the best possible return for shareholders, and being a conscientious corporate citizen.

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Consolidated Financial Highlights

Knape & Vogt Manufacturing Company and Subsidiaries

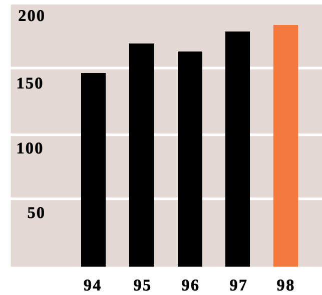
Year Ended June 30, *(in thousands, except per share data)*	1998	1997	1996
Net Sales	**$ 181,633**	$ 176,630	$ 163,012
Gross Profit	**42,300**	43,549	38,603
Operating Income (Loss)	**(2,645)** (1)	14,739	7,669 (2)
Income (Loss) from Continuing Operations Before Taxes	**(4,438)** (1)	12,589	5,138 (2)
Income Taxes from Continuing Operations	**3,931** (1)	4,264	2,035 (2)
Income (Loss) from Continuing Operations	**(8,369)** (1)	8,325	3,103 (2)
Discontinued Operation, Net of Taxes	**(431)**	(472)	(3,038)
Net Income (Loss)	**(9,737)** (1)	7,854	65 (2)
Earnings Per Share, from Continuing Operations	**(1.41)** (1)	1.41	0.53 (2)
Earnings Per Share, from Discontinued Operation	**(0.23)**	(0.08)	(0.52)
Earnings Per Share, Net	**(1.64)** (1)	1.33	0.01 (2)

(1) Includes restructuring, impairment of assets, write-off for idle equipment and adjustments in inventory reserves charge of $17.1 million, and an income tax benefit of $0.1 million, for an after-tax effect of $17 million or $2.86 per share.

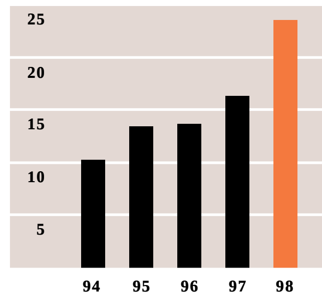
(2) Includes restructuring, impairment of assets and inventory liquidation charge of $4.3 million, and an income tax benefit of $1.5 million, for an after-tax effect of $2.8 million or $0.48 per share.

June 30, *(in thousands, except per share data)*	1998	1997	1996
Book Value Per Share	**10.37**	12.44	11.73
Stock Price	**22.50**	16.00	15.75
Total Debt	**9,700**	29,000	35,000
Stockholders' Equity	**61,757**	73,460	69,174
Debt to Capital Ratio	**14%**	28%	34%

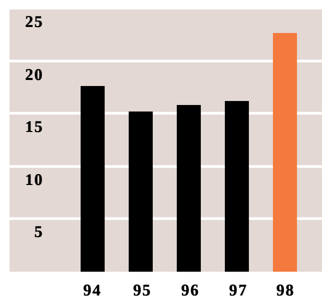
Net Sales
(millions of dollars)



Cash from Operations
(millions of dollars)



Year-end Stock Price*
(dollars)



**Data adjusted to reflect a 10% stock dividend paid in September 1994 .*

In 1898, John Knape and Engelbert Vogt provided the entrepreneurial spark that launched your Company. Today, their heritage of risk-taking, hard work, and dedication to quality guide the Company they founded a century ago. In 1998, we are celebrating Knape & Vogt's "Century of Progress," but more importantly in this centennial year, we set a new course for your Company that will allow it to enter the next century with substantial growth potential and the opportunity for market dominance in every aspect of our business.

Our sales growth and market penetration strategy is three-pronged:

- *Add new accounts;*
- *Grow our product offerings to our existing OEMs, specialty distributors and retail customers; and*
- *Explore new opportunities to expand our business through strategic acquisitions and continued internal product development.*

Shaping the redirection of the Company has been our commitment to return to Knape & Vogt's core competencies and our focus on increasing shareholder value. Several difficult but necessary actions were taken in fiscal 1998 and in the first quarter of fiscal 1999:

- In March of 1998, the Company completed the sale of Roll-it, our store fixture operation, as part of our planned reorganization of Canadian operations. The sale of Roll-it eliminated a business that did not fit KV's core capabilities in engineering, manufacturing or distribution and would have required substantial expansion and investment to make it a significant player in that market.

- In May of 1998, the sale of KV Canada's manufacturing facility and equipment was completed as part of the reorganization plan. The sale eliminated a redundant operation and now allows KV to more efficiently and economically manufacture and distribute its products to Canada from the Grand Rapids facilities.

- In September of 1998, Knape & Vogt completed the sale of The Hirsh Company, a wholly owned subsidiary, which manufactures free-standing shelving, wood storage products and workshop accessories. This sale reflects the Company's desire to enhance its corporate margins and profitability as Hirsh did not fit our growth criteria going forward. Net of taxes and expenses, Knape & Vogt will receive approximately $16 million in cash for Hirsh, a company that had a negative impact on operating income in fiscal 1998.

The sale of Hirsh and Roll-it and the reorganization of KV Canada demonstrate our commitment to improving profitability, increasing shareholder value and focusing on our core drawer slide, kitchen and bath storage and wall-attached shelving products.

Review of Fiscal 1998 Financial Results In fiscal 1998, Knape & Vogt posted record net sales of $181.6 million compared with net sales of $176.6 million in fiscal 1997. However, KV reported a loss from continuing operations of $8.4 million, or $1.41 per diluted share, in fiscal 1998, compared with income from continuing operations of $8.3 million, or $1.41 per share, in fiscal 1997.

The Company's fiscal 1998 results include an impairment charge of $12.8 million, or $2.16 per share, to reflect the sale of our Hirsh subsidiary, a one-time charge of $3.4 million, or $0.57 per share, to restructure KV Canada and a $785,000, or $0.13 per share, write-off for idle equipment and adjustments in inventory reserves.

If the one-time charges and write-downs in both periods were excluded, Knape & Vogt's income from continuing operations would have increased slightly to $8.61 million, or $1.45 per share, in fiscal 1998, compared with $8.57 million, or $1.45 per share, in the prior year.

We believe we made significant progress in restructuring and refining our operations in fiscal 1998. Of particular note is that our record sales were fueled by double-digit growth in sales of precision drawer slides and Feeny storage products. Wall-attached shelving products also had positive gains but these gains were partially offset by a decline in sales of Hirsh products.

As we look forward to our next century of progress, our efforts in fiscal 1998 to restructure the Company, refine our operations and put in place a new financial strategy that is committed to creating shareholder value, may make 1998 second only to 1898 in its significance to KV's history. Our plans for the future growth of your Company have been set in motion. These plans include:

A TRADITION OF SUCCESS
1898 1998

Achieving Market Leadership and Low-Cost Producer Status Our goal is to be the market leader and the low-cost producer in every aspect of our business. With our new focus on core competencies, we can realize this goal. In 1998, we created a company with complementary products, operations and distribution points.

In other words, similar manufacturing technologies are used to create our value-added products which, through our consolidated sales, marketing and administrative organization, are sold into three primary distribution channels: original equipment manufacturers (OEMs), specialty distributors and the consumer retail market.

Drawer slides, for example, are sold to the wood and metal furniture and kitchen cabinet OEM markets, to specialty distributors and to the retail marketplace through hardware cooperatives and do-it-yourself home centers.

Because of this commonality of technology, marketing, sales and distribution, Knape & Vogt's core shelving systems, drawer slides and kitchen and bath storage products are all well positioned to achieve market leader status within a low-cost producer environment.

Entering New Markets with New Products and Gaining Market Penetration Knape & Vogt has grown to be the recognized leader in precision drawer slides for the wood office furniture marketplace. We did not inherit this market position; we earned it over a period of years.

We now have the opportunity to leverage this success and our developed technologies into the metal office furniture industry, a market that is nearly double the size of the wood office furniture market. In fiscal 1998, KV began shipping our precision drawer slides to several metal office furniture OEMs and we anticipate significant new business in this market during fiscal 1999.

Over time, we believe your Company will achieve the same success and market share in the metal office furniture market that we now enjoy in the wood office furniture marketplace. We are also focusing on the industrial market where our drawer slides can be utilized in applications such as cash drawers, tool boxes and computer stands.

As noted, sales of our kitchen and bath storage products were strong in fiscal 1998, as we gained increased market penetration with OEMs and specialty distributors. We are committed to developing new customers for KV consumer products, growing the overall sales volume of products and increasing our line of product offerings to each market we serve.

Our core wall-attached shelving business allows us to remain the quality manufacturer and premier supplier to existing and new customers. We expect continued growth in this key component of our business.

Our sales growth and market penetration strategy is three-pronged: 1) Add new accounts; 2) Grow our product offerings to our existing OEMs, specialty distributors and retail customers; and 3) Explore new opportunities to expand our business through strategic acquisitions and continued internal product development.

Implementing EVA, Initiating a New Financial Strategy and Increasing Shareholder Value Last year we discussed our implementation of an Economic Value Added (EVA) philosophy. EVA is founded on the principle that the only way for managers to increase the value of a business is to produce profits over and above the minimum required rate of return on the capital entrusted to them by lenders and shareholders. Basically, EVA is the after-tax operating profits that remain after subtracting the cost of capital employed to generate that profit.

Fiscal 1998 represented our first full year of EVA implementation and the Company achieved an 18 percent improvement in EVA for the year. The keys to our growth in EVA came from improved cash flow and our commitment to effective balance sheet management. Notably, Knape & Vogt lowered long-term debt by $19.3 million or 67 percent in fiscal 1998. We expect continuing improvement in EVA for fiscal 1999, as we begin to realize the benefits of the sale of Roll-it and Hirsh and the restructuring of KV Canada. Additionally, EVA will be improved by our Company's operation improvement program which will allow us to move product through our plant quicker, increase our capacity and operate at reduced inventory levels.

Also in fiscal 1998, the Company developed a new financial strategy designed to make greater use of our financial leverage and to fundamentally change the way we distribute cash to shareholders.

The first step in implementing this new financial strategy was to determine the most tax efficient way to distribute the cash generated through operations, balance sheet management and the sale of subsidiaries. The Board of Directors authorized a repurchase of up to 1.35 million shares of the Company's common stock. The repurchase program includes a "Dutch Auction" self-tender offer for up to 1.2 million shares at a price range of $19.00 to $22.00 per share in cash. The remainder of the 1.35 million share repurchase program will be completed with open-market or privately negotiated transactions.

In addition to the new capital structure, the Board of Directors also declared its intention, beginning with the fiscal 1999 second quarter, to substitute quarterly stock dividends for quarterly cash dividends, having a market value approximately equivalent to cash dividends that might otherwise have been paid.

The Company also intends to adopt a stock dividend sale plan that we believe will give shareholders greater flexibility and choice. As shareholders, you will be able to choose to sell your stock dividends, which will enable you to maintain a steady cash flow. We have been advised that you should receive favorable capital gains treatment on these sales. Or, by not selling the stock dividends, you can reinvest in the Company in a similar way as through the Dividend Reinvestment Program, but without having to pay taxes on the additional shares received from the stock dividends.

This new financial strategy ultimately will help the Company maximize the wealth of all shareholders as it allows Knape & Vogt to make greater use of financial leverage and improve the way the Company makes cash available to shareholders.

Providing Every Employee the Tools and Knowledge Needed to Manage the Business Knape & Vogt has a wealth of dedicated employees who make our business successful. However, our management responsibility is to ensure that everyone at Knape & Vogt understands our Company's goals and is provided the tools to reach their individual business goals. EVA is one such tool. EVA encourages employees to operate their businesses as if they were owners.

KVOPS, the Company's operations improvement program, is another tool that will improve productivity and profitability in fiscal 1999 through the use of Continuous Flow Manufacturing (CFM), cell-based manufacturing and basics such as teamwork and employee empowerment. This initiative represents our process for continuous improvement which will assure our becoming the lowest cost producer in increasingly competitive markets.

William R. Dutmers, Chairman of the Board, and Allan E. Perry, President and Chief Executive Officer

Such business management tools will assure that Knape & Vogt continues to be the low-cost producer, the best service provider and the quality leader in all areas of our business.

The Next 100 Years We believe if John Knape and Engelbert Vogt could return to look at the business they founded in 1898, they would be proud and perhaps even overwhelmed by the company they started. They would surely observe that risk-taking, hard work and a dedication to quality are still the cornerstones of Knape & Vogt today.

KV's long-term goals are profitable growth, world-class operations, and strong leadership in the markets we serve. For our shareholders, our goal is to provide the best possible return on your investment. The level of accomplishment we seek is lofty and always expanding. We are confident that we now have the foundation for continuous successful growth into the next 100 years.

Sincerely,

William R. Dutmers
Chairman of the Board

Allan E. Perry
President and Chief Executive Officer

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of the Company's financial condition and results of operations. The discussion should be read in conjunction with the consolidated financial statements and footnotes.

RESULTS OF OPERATIONS

The table below sets forth certain items in the Consolidated Statements of Operations from continuing operations as a percentage of net sales:

Year Ended June 30,	1998	1997	1996
Net sales	**100.0%**	100.0%	100.0%
Cost of sales	**76.7**	75.3	76.3
Gross profit	**23.3**	24.7	23.7
Selling and administrative expenses	**16.1**	16.1	16.8
Restructuring and impairment of assets	**8.7**	.3	2.1
Operating income (loss)	**(1.5)**	8.3	4.8
Interest expense	**.6**	1.1	1.4
Other expense	**.3**	.1	.2
Income (loss) from continuing operations before income taxes	**(2.4)**	7.1	3.2
Income taxes from continuing operations	**2.2**	2.4	1.3
Income (loss) from continuing operations	**(4.6)%**	4.7%	1.9%

Fiscal 1998 compared with fiscal 1997

Net sales in fiscal 1998 increased $5.0 million to a record $181.6 million, or 2.8%, over fiscal 1997 sales of $176.6 million. The increase in sales was due primarily to an increase in unit volumes. Drawer slide sales led this increase with a $7.5 million improvement. The increase was due to precision drawer slide sales continuing their rapid growth and the expansion of shipments into the metal office furniture market. Euro-style drawer slide sales increases in fiscal 1998 were offset by a decline in sales of utility slides. Drawer slide sales are expected to continue to increase in fiscal 1999 due to increases in demand for precision drawer slides and further penetration into the metal office furniture market. Shelving system sales increased by $1.0 million due to increases in sales of wall-attached shelving. The Company anticipates that sales from the wall-attached shelving portion of the shelving system product line will continue to grow in fiscal 1999. The free-standing shelving portion of the shelving system product line will be discontinued in fiscal 1999 with the sale of Hirsh (discussed below). Hardware sales declined $0.5 million in fiscal 1998 compared to fiscal 1997. Feeny's continued increase in the sales of its kitchen and bath storage products were offset by a decrease in the Hirsh Iron Horse product line. The decrease in sales of the Iron Horse product line was caused by a reduction in promotions of the product line at major home centers. Hardware sales will decline in fiscal 1999 with the discontinuance of the Iron Horse line due to the sale of Hirsh. The Company anticipates that sales of Feeny products will increase in fiscal 1999. Furniture component sales declined $3.0 million. No sales were recorded in fiscal 1998 due to the elimination of the product line in fiscal 1997 with the sale of Modar Inc. Hirsh sales in fiscal 1998 were approximately $38 million with about 90% of these sales in the shelving system product group and 10% in the hardware product group.

Gross profit as a percentage of net sales was 23.3% in fiscal 1998, compared to 24.7% in fiscal 1997. Gross profit in fiscal 1998 included a $910,000 unfavorable adjustment to the inventory obsolescence reserve. Without this charge, gross profit as a percentage of net sales would have been 23.8 % in fiscal 1998. The decrease in margin is attributable to 1) the Company's continued investments in manufacturing and sales to aggressively enter the metal office furniture market; 2) transition costs that cannot be classified as restructuring related to the reorganization of the Company's Canadian operation near Toronto, and 3) continued softness in the Canadian dollar.

Selling and administrative expenses as a percent of sales were 16.1% in both fiscal 1998 and fiscal 1997.

A pre-tax restructuring charge of $3,992,276 was recorded in the third quarter of fiscal 1998 for Knape & Vogt Canada. In March 1998, Knape & Vogt announced its plans to reorganize its Canadian operation, including the sale of the Company's manufacturing facility and equipment in the Toronto area. The sale was completed in May of 1998. The Company will continue to sell and distribute its products in Canada and maintain a sales office in the Toronto area. The Company signed a definitive agreement to sell substantially all the assets of The Hirsh Company, a wholly owned subsidiary of Knape & Vogt, on August 31, 1998. At June 30, 1998, the carrying value of the net assets subject to the sale were reduced to fair value based on the estimated selling price less costs to sell. This resulted in a pre-tax impairment of assets charge of $11,800,000. The sale of Hirsh reflects the Company's desire to enhance its corporate margins and profitability and remain focused on its core drawer slide, kitchen and bath storage and wall-attached shelving products. During fiscal 1997, the sale of Modar was completed and resulted in an additional pre-tax restructuring and impairment of assets charge of $373,235 which represents the difference between the original estimate and the actual loss from the sale.

Total other expenses in fiscal 1998 decreased by $356,318 compared to fiscal 1997. Interest expense declined 38% or $762,000, reflecting the Company's continued dedication to improving cash flow using Economic Value Added principles. The decrease in interest expense was offset by a $448,284 write-off of idle equipment.

See Note 9 to the consolidated financial statements for an explanation of the effective income tax rate.

Income (loss) from continuing operations in fiscal 1998 was ($8.4) million, or ($1.41) per diluted share, compared to $8.3 million, or $1.41 per diluted share in fiscal 1997. Without the $12.8 million after-tax charge for impairment of assets of Hirsh, the $3.4 million restructuring charge for Knape & Vogt Canada, the $0.6 million after-tax adjustment to the inventory reserve and the $0.2 million adjustment due to the write-off of idle equipment, income from continuing operations would have been $8.6 million, or $1.45 per diluted share in fiscal 1998. This is compared with $8.6 million, or $1.45 per diluted share, in fiscal 1997 without the restructuring charge pertaining to the sale of Modar.

Net of the 1998 restructuring, impairment of assets and other one-time charges, the Company expects fiscal 1999 to generate improved income from continuing operations over fiscal 1998. However, the Company anticipates that the operating profit for the first quarter of fiscal 1999 will be less than operating profit for the first quarter of fiscal 1998, with other income causing net earnings for the first quarter of fiscal 1999 to be only slightly less than the net earnings for the first quarter of fiscal 1998. The Company expects that most of its profit improvement will be generated in the second half of fiscal 1999 as the Company further increases its sales of precision drawer slides and receives the benefit from the implementation of the Company's new KVOPS "Operation Improvement Program." At the cornerstone of KVOPS is Continuous Flow Manufacturing, which is designed to make the Company the low-cost producer, the best service provider and the quality leader.

The results of operations of Roll-it, net of income taxes, are presented as a discontinued operation. In fiscal 1998, the after-tax loss from discontinued operation was $1.4 million compared to $0.5 million in fiscal 1997. On March 27, 1998, the Company signed an agreement to sell Roll-it which resulted in an additional loss of $1.0 million, which represents the difference between the original estimate and the actual loss from the sale of Roll-it.

Fiscal 1997 compared with fiscal 1996

Net sales in fiscal 1997 increased $13.6 million to a record $176.6 million, or 8.4%, over fiscal 1996 sales of $163.0 million. The increase in sales was due primarily to an increase in unit volumes. Drawer slide sales led this increase with a $9.9 million improvement. The majority of this increase was due to precision drawer slide sales continuing their rapid growth. Euro-style and utility slide sales were also improved over fiscal 1996. Shelving system sales increased by $2.5 million primarily due to an increase in wall-attached shelving. The increase in wall-attached shelving sales was primarily attributable to the addition of two significant customers in the middle of fiscal 1997. Hardware sales increased in fiscal 1997 by $1.2 million over fiscal 1996 levels led by the Feeny kitchen and bath product line. There was no change in furniture component sales in fiscal 1997, and with the sale of Modar, this product line has been eliminated.

Gross profit as a percentage of net sales was 24.7% in fiscal 1997, compared to 23.7% in fiscal 1996. Gross profit in fiscal 1996 included an $863,000 charge for liquidation of inventories to create additional manufacturing and warehousing space. Without this charge, gross profit as a percentage of net sales would have been 24.2% in fiscal 1996. The improvement in gross profit during fiscal 1997 was due to successful cost containment efforts and higher sales levels which absorbed fixed overhead costs.

Selling and administrative expenses in fiscal 1997 decreased to 16.1% of net sales from 16.8% in fiscal 1996. The decrease was due to expense controls put into place during the fiscal year and the increase in sales.

During fiscal 1997, the sale of Modar was completed and resulted in an additional restructuring and impairment of assets charge of $373,235 which represents the difference between the original estimate and the actual loss from the sale.

Other expenses in fiscal 1997 decreased by $381,571 compared to fiscal 1996 mainly due to a reduction in interest expense caused by lower debt levels.

The effective income tax rate was 33.9% in fiscal 1997 compared to 39.6% in fiscal 1996. See Note 9 to the consolidated financial statements for an explanation of the effective income tax rate.

Income from continuing operations in fiscal 1997 was $8.3 million, or $1.41 per share, compared to $3.1 million, or $0.53 per share in fiscal 1996. Without the $2.8 million charge for restructuring, impairment of assets and inventory liquidations, the income from continuing operations would have been $5.9 million, or $1.01 per share in fiscal 1996.

The results of operations of Roll-it, net of income taxes, are presented as a discontinued operation. In fiscal 1997, the after-tax loss from discontinued operation was $0.5 million compared to $3.0 million in fiscal 1996. The 1996 loss includes an estimated after-tax loss on the sale of Roll-it of $2.7 million.

LIQUIDITY AND CAPITAL RESOURCES

The Company's focus on aggressively generating cash using the newly adopted Economic Value Added, or EVA, philosophy resulted in a reduction of long-term debt by $19.3 million to $9.7 million at the end of fiscal 1998 from $29.0 million at the end of fiscal 1997. The debt to equity ratio at the end of fiscal 1998 was 16% compared to 39% at the end of fiscal 1997. Net cash provided from operating activities in fiscal 1998 was a record $23.4 million. Financial resources, including borrowing capacity and anticipated funds from operations, are expected to be adequate to satisfy all short-term obligations and the internal growth objectives of the Company.

Cash flows from operating activities generated $23.2 million in fiscal 1998 compared to $16.2 million in fiscal 1997. Cash flows in fiscal 1998 increased over fiscal 1997 levels primarily due to an increase in accounts payable. As part of the Company's focus on EVA and cash flow, payment terms for most of the Company's payables were extended by 30 days resulting in a $7.6 million increase.

Investing activities provided $1.2 million in fiscal 1998 compared to $5.9 million of cash used for investing activities in fiscal 1997. Capital expenditures decreased to $4.2 million in fiscal 1998 from $7.8 million in fiscal 1997. In fiscal 1997, approximately $3.3 million was expended for additional equipment to manufacture precision drawer slides for the wood furniture and metal office furniture markets. The disposition of Roll-it, a discontinued operation, generated $2.0 million in cash in fiscal 1998. Capital expenditures in fiscal 1999 are expected to remain at approximately the same levels as in fiscal 1998. It is anticipated that the sale of Hirsh in fiscal 1999 will result in $15.9 million of cash, after expenses. The sale of Modar in fiscal 1997 was the primary reason for the $3.0 million of cash generated from the sales of property, plant and equipment.

Financing activities used $22.6 million in fiscal 1998, compared to $9.4 million in fiscal 1997. The Company reduced debt by $19.3 million in fiscal 1998 and declared cash dividends of $3.8 million. The Company believes that cash flows from operations and funds available under an existing credit facility are sufficient to fund working capital requirements and capital expenditures in fiscal 1999. The Company announced on September 1, 1998, that it was initiating a stock dividend sale plan and eliminating cash dividends. Shareholders can elect to have their quarterly stock dividends automatically sold by a broker. On September 1, 1998, the Company announced the purchase by the Company of up to 1.2 million shares of the Company's common stock pursuant to a Dutch Auction self-tender offer. The Company also announced on September 1, 1998, that the Board of Directors approved, following the Dutch Auction, a purchase in the market or in negotiated transactions of common stock in an amount which when added to the number of shares of common stock purchased in the Dutch Auction would equal 1,350,000. The Company will use long-term debt to the point where financial flexibility is preserved and undue financial risk is not incurred.

YEAR 2000 COMPLIANCE

The Year 2000 issue is the result of computer systems that use two digits rather than four to define the applicable year, which may prevent such systems from accurately processing dates ending in the year 2000 and after. This could result in system failures or in miscalculations causing disruption of operations, including, but not limited to, an inability to process transactions, to send and receive electronic data, or to engage in routine business activities and operations.

In 1995 the Company established a Year 2000 task force for Information Technology ("IT") to develop and implement a Year 2000 readiness program. The Company has developed a Year 2000 readiness plan, and has completed the audit, assessment and scope phases of its plan. The Company has completed an inventory of the software applications that it uses.

The Company has also installed its Corporate Information System software at its subsidiaries to improve efficiency and facilitate Year 2000 compliance. The Company estimates that the implementation phase is 50% complete for the Company's IT systems. The Company's readiness program includes installing software releases designed to cause the software to be Year 2000 compliant. The Company is in the process of testing its IT systems for Year 2000 compliance, and expects testing activities to continue into 1999. The Company's goal is to be substantially Year 2000 compliant by December 1998, to allow for testing all systems during 1999.

In addition, in 1997 the Company began evaluating non-IT systems such as imbedded chips in production equipment and personal computer hardware and software. With respect to these non-IT systems, the Company has completed the audit phase, and the assessment and scope phases are approximately 50% complete. The Company is presently in the process of testing and implementation, and is upgrading its non-IT systems to become Year 2000 compliant. The Company's goal is to complete the remediation of non-IT systems by June 30, 1999.

In addition to reviewing its internal systems, the Company has had formal communications with its significant customers, vendors and freight companies concerning Year 2000 compliance, including electronic commerce. There can be no assurance that the systems of other companies that interact with the Company will be sufficiently Year 2000 compliant so as to avoid an adverse impact on the Company's operations, financial condition and results of operations. The Company does not believe that its products and services involve any Year 2000 risks.

The Company does not presently anticipate that the costs to address the Year 2000 issue will have a material adverse effect on the Company's financial condition, results of operations or liquidity. Present estimated cost for remediation are as follows:

	Previous Fiscal Years	Fiscal 1999
Labor	$ 313,000	$ 276,000
Software	4,000	44,000
Hardware	34,000	0
Year 2000 solution providers	101,000	76,000
	$ 452,000	$ 396,000

The Company presently anticipates that it will complete its Year 2000 assessment and remediation by December 31, 1999. However, there can be no assurance that the Company will be successful in implementing its Year 2000 remediation plan according to the anticipated schedule. In addition, the Company may be adversely affected by the inability of other companies whose systems interact with the Company to become Year 2000 compliant and by potential interruptions of utility, communication or transportation systems as a result of Year 2000 issues.

Although the Company expects its internal systems to be Year 2000 compliant as described above, the Company intends to prepare a contingency plan that will specify what it plans to do if it or important external companies are not Year 2000 compliant in a timely manner. The Company expects to prepare its contingency plan during 1999.

This report contains certain forward-looking statements which involve risks and uncertainties. When used in this report, the words "believe," "anticipate," "think," "intend," "goal," "forecast," "expect" and similar expressions identify forward-looking statements. Such statements are subject to certain risks and uncertainties which would cause actual results to differ materially from those expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on those forward-looking statements which speak only as of the date of this report.

CONSOLIDATED STATEMENTS OF OPERATIONS

Knape & Vogt Manufacturing Company and Subsidiaries

Year Ended June 30,	1998	1997	1996
Net Sales	**$181,632,570**	$176,630,294	$163,012,030
Cost of Sales	**139,332,670**	133,081,765	124,408,648
Gross Profit	**42,299,900**	43,548,529	38,603,382
Expenses			
Selling and shipping	**22,594,546**	21,545,425	21,044,004
Administrative and general	**6,557,842**	6,890,905	6,394,013
Restructuring and impairment of assets	**15,792,276**	373,235	3,496,000
Total Expenses	**44,944,664**	28,809,565	30,934,017
Operating Income (Loss)	**(2,644,764)**	14,738,964	7,669,365
Other Expenses			
Interest	**1,224,394**	1,986,522	2,253,992
Other, net	**569,024**	163,214	277,315
Total Other Expenses	**1,793,418**	2,149,736	2,531,307
Income (Loss) from Continuing Operations Before Income Taxes	**(4,438,182)**	12,589,228	5,138,058
Income Taxes from Continuing Operations	**3,931,000**	4,264,000	2,035,000
Income (Loss) from Continuing Operations	**(8,369,182)**	8,325,228	3,103,058
Discontinued Operation, Net of Income Taxes			
Loss from operations	**(431,010)**	(471,624)	(337,926)
Estimated loss on sale	**(937,268)**	—	(2,700,000)
Total Discontinued Operation, Net of Income Taxes	**(1,368,278)**	(471,624)	(3,037,926)
Net Income (Loss)	**$ (9,737,460)**	$ 7,853,604	$ 65,132
Basic Earnings Per Share			
Income (loss) from continuing operations	**$ (1.41)**	$ 1.41	$ .53
Loss from discontinued operation	**(0.23)**	(0.08)	(.52)
Net Income (Loss) Per Share	**$ (1.64)**	$ 1.33	$ .01
Weighted Average Shares Outstanding	**5,920,380**	5,889,420	5,881,069
Diluted Earnings Per Share			
Income (loss) from continuing operations	**$ (1.41)**	$ 1.41	$ 53
Loss from discontinued operation	**(0.23)**	(0.08)	(.52)
Net Income (Loss) Per Share	**$ (1.64)**	$ 1.33	$ .01
Weighted Average Shares Outstanding	**5,954,713**	5,903,237	5,897,141
Dividends Per Share			
Common stock	**$ .66**	$ .66	$ .66
Class B common stock	**$ .60**	$ .60	$ .60

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

Knape & Vogt Manufacturing Company and Subsidiaries

June 30,	1998	1997
Assets		
Current Assets		
Cash	**$ 3,057,158**	$ 1,146,546
Accounts receivable, less allowances of $352,000 and $525,000, respectively	**25,677,043**	24,991,341
Refundable income taxes	**176,204**	1,578,681
Inventories	**12,808,532**	18,629,454
Prepaid expenses	**2,706,490**	3,686,042
Net current assets of discontinued operation	**—**	1,462,089
Net assets held for sale	**18,648,000**	—
Total Current Assets	**63,073,427**	51,494,153
Property and Equipment		
Land and improvements	**1,804,948**	1,874,420
Buildings	**14,353,886**	16,573,882
Machinery and equipment	**44,743,067**	62,322,944
	60,901,901	80,771,246
Less accumulated depreciation	**24,247,181**	32,184,444
Net Property and Equipment	**36,654,720**	48,586,802
Net Property and Equipment of Discontinued Operation	**—**	1,440,740
Goodwill, Net	**593,277**	18,409,767
Other Assets	**3,711,663**	5,810,236
	$104,033,087	$125,741,698
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	**$ 17,765,610**	$ 5,976,683
Accruals:		
Income taxes	**847,306**	382,273
Taxes other than income	**860,928**	1,551,686
Compensation	**3,067,186**	2,460,426
Retirement plan contributions	**769,978**	740,666
Restructuring costs	**828,932**	—
Miscellaneous	**657,320**	1,116,385
Total Current Liabilities	**24,797,260**	12,228,119
Supplemental Retirement Benefits	**1,837,153**	1,579,653
Long-Term Debt	**9,700,000**	29,000,000
Deferred Lease Costs	**—**	1,818,428
Deferred Income Taxes	**5,942,000**	7,655,000
Total Liabilities	**42,276,413**	52,281,200
Commitments		
Stockholders' Equity		
Stock:		
Common, $2 par - 6,000,000 shares authorized; 3,530,042 and 3,465,664 issued	**7,060,084**	6,931,328
Class B common, $2 par - 4,000,000 shares authorized; 2,405,583 and 2,438,165 issued	**4,811,166**	4,876,330
Preferred - 2,000,000 shares authorized and unissued	**—**	—
Additional paid-in capital	**33,724,990**	33,340,541
Retained earnings	**16,160,434**	29,658,277
Cumulative foreign currency translation adjustment	**—**	(1,345,978)
Total Stockholders' Equity	**61,756,674**	73,460,498
	$104,033,087	$125,741,698

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

Knape & Vogt Manufacturing Company and Subsidiaries

	Common stock	Additional paid-in capital	Retained earnings	Cumulative foreign currency translation adjustment
Balance, July 1, 1995	$ 11,759,828	$ 33,065,773	$ 29,205,000	$ (1,316,765)
Net income for 1996	—	—	65,132	—
Cash dividends	—	—	(3,727,321)	—
Stock issued under stock option plan	2,310	14,314	—	—
Foreign currency translation adjustment	—	—	—	105,479
Balance, June 30, 1996	11,762,138	33,080,087	25,542,811	(1,211,286)
Net income for 1997	—	—	7,853,604	—
Cash dividends	—	—	(3,738,138)	—
Stock issued under stock option plan	45,520	260,454	—	—
Foreign currency translation adjustment	—	—	—	(134,692)
Balance, June 30, 1997	11,807,658	33,340,541	29,658,277	(1,345,978)
Net loss for 1998	—	—	(9,737,460)	—
Cash dividends	—	—	(3,760,383)	—
Stock issued under stock option plan	63,592	384,449	—	—
Foreign currency translation adjustment	—	—	—	(259,327)
Sale of Knape & Vogt Canada assets	—	—	—	1,605,305
Balance, June 30, 1998	**$ 11,871,250**	**$ 33,724,990**	**$ 16,160,434**	**$ —**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Knape & Vogt Manufacturing Company and Subsidiaries

Year Ended June 30,	1998	1997	1996
Operating Activities			
Net income (loss)	**$ (9,737,460)**	$ 7,853,604	$ 65,132
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation of fixed assets	**6,604,799**	6,542,750	6,190,031
Amortization of other assets	**1,361,584**	1,185,853	1,155,322
Decrease in deferred income taxes	**(752,000)**	(334,800)	(1,060,000)
Increase in supplemental retirement benefits	**264,957**	76,740	64,612
Decrease in deferred lease costs	**(556,992)**	(541,696)	(524,966)
Loss on sale of discontinued operation	**937,268**	—	3,866,000
Write-off of foreign currency translation adjustment	**1,605,305**	—	—
Impairment loss - Hirsh	**12,800,000**	—	—
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Accounts receivable	**(809,180)**	(2,248,856)	515,079
Refundable income taxes	**1,157,735**	272,579	(1,627,737)
Inventories	**1,903,218**	4,372,415	720,025
Net assets of discontinued operation	**(995,000)**	592,226	636,106
Prepaid expenses	**384,903**	(629,600)	(160,535)
Increase (decrease) in:			
Accounts payable	**8,776,835**	1,158,861	289,679
Accrued restructuring costs	**672,004**	(3,440,184)	3,440,184
Accruals	**(383,204)**	1,326,505	(83,555)
Net cash provided by operating activities	**23,234,772**	16,186,397	13,485,377
Investing Activities			
Additions to property, plant and equipment	**(4,228,552)**	(7,763,482)	(8,032,779)
Sales of property, plant and equipment	**2,564,744**	2,985,833	175,651
Disposition of discontinued operation	**2,045,364**	—	—
Payments for other assets	**803,530**	(1,079,168)	(1,471,438)
Net cash provided by (used for) investing activities	**1,185,086**	(5,856,817)	(9,328,566)
Financing Activities			
Cash dividends declared	**(3,760,383)**	(3,738,138)	(3,727,321)
Proceeds from issuance of common stock	**448,041**	305,974	16,624
Payments on long-term debt	**(19,300,000)**	(6,000,000)	(800,000)
Net cash used for financing activities	**(22,612,342)**	(9,432,164)	(4,510,697)
Effect of Exchange Rate Changes on Cash	**103,096**	4,859	63,877
Net Increase (Decrease) in Cash	**1,910,612**	902,275	(290,009)
Cash, Beginning of Year	**1,146,546**	244,271	534,280
Cash, End of Year	**$ 3,057,158**	$ 1,146,546	$ 244,271

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

Principles of Consolidation
The consolidated financial statements include the accounts of Knape & Vogt Manufacturing Company and its wholly-owned subsidiaries (Company). All material intercompany balances, transactions and stockholdings have been eliminated in consolidation.

Description of Business, Revenue Recognition and Concentration of Credit Risk
The Company designs, manufactures and distributes storage products including decorative and utility shelving systems, drawer slides, kitchen and closet storage products and cabinet hardware. On August 20, 1996, the Company announced its decision to sell its store fixture operation and this portion of the business is shown as a discontinued operation. The Company primarily sells its products to hardware chains, home centers, specialty distributors and original equipment manufacturers and recognizes revenue upon shipment of products to customers. No single customer accounts for more than 10% of consolidated sales. The Company performs ongoing credit evaluations and maintains reserves for potential credit losses.

Foreign Currency Translation
The accounts of the foreign subsidiary are translated into U.S. dollars in accordance with Statement of Financial Accounting Standards (SFAS) No. 52. Assets and liabilities are translated at year-end exchange rates. Income and expense accounts are translated at average exchange rates in effect during the year. Adjustments relating to the translation process are accumulated and reported in the stockholders' equity section as a cumulative foreign currency translation adjustment.

Fair Value of Financial Instruments
The carrying amounts of the Company's financial instruments, which consist of cash, receivables, bank revolving credit agreement and accounts payable, approximate their fair values.

Inventories
Inventories are stated at the lower of FIFO (first-in, first-out) cost or market.

Property, Equipment and Depreciation
Property and equipment are stated at cost after elimination of fully depreciated items. For financial reporting purposes, depreciation is computed over the estimated useful lives of the assets by the straight-line method. For income tax purposes, accelerated depreciation methods and shorter useful lives are used.

Goodwill
Goodwill represents the amount by which the cost of businesses purchased exceeds the fair value of the net assets acquired. Goodwill is amortized over a period of 40 years using the straight-line method. Accumulated amortization of goodwill was $120,441 and $1,853,951 at June 30, 1998 and 1997, respectively. The Company periodically reviews goodwill for impairment based upon undiscounted operating income over the remaining life of the goodwill. While the estimates are based on management's historical experience and assumptions regarding future operations, the amounts the Company will ultimately realize could differ from those used in the 1998 SFAS No. 121 analysis.

Employee Retirement Plans
The Company has pension and profit-sharing plans covering substantially all employees. The Company's policy is to fund pension costs for the plan in amounts which equal or exceed the ERISA minimum requirements.

The Company has a supplemental retirement program for officers. The cost of the supplemental program is actuarially determined and is accrued but not funded.

Income Taxes
The Company accounts for certain income and expenses in different periods for financial reporting and income tax purposes. The Company utilizes the liability method to account for deferred income taxes by applying statutory tax rates in effect at the balance sheet date to differences between the financial reporting and tax bases of assets and liabilities. The resulting deferred tax liabilities or assets are adjusted to reflect changes in tax laws or rates by means of charges or credits to income tax expense.

Use of Estimates in Preparation of Financial Statements
The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting for the Impairment of Long-Lived Assets
In accordance with SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets,* the Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Advertising
The Company expenses the costs of advertising as incurred. Advertising expense was $299,000 in 1998, $422,000 in 1997 and $553,000 in 1996.

Earnings Per Share
During fiscal 1998, the Company adopted SFAS No. 128, *Earnings Per Share.* SFAS No. 128 replaces 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 the dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. SFAS No. 128 requires that earnings per share amounts for all prior periods presented be

restated to give effect to the provisions of the statement. SFAS No. 128 did not materially impact earnings per share information previously reported. For the periods presented, the numerators remained the same in both the basic and diluted earnings per share calculations. The denominator was increased in the diluted computation due to the recognition of stock options as common stock equivalents.

New Accounting Standards Not Yet Adopted

SFAS No. 130, *Reporting Comprehensive Income*, establishes standards for the reporting and display of comprehensive income, its components and accumulated balances. Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, SFAS No. 130 requires that all items that are required to be recognized under current accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. This statement is effective for the Company for 1999 and requires comparative information for earlier years to be restated.

SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*, which supersedes SFAS No. 14, *Financial Reporting for Segments of a Business Enterprise*, establishes standards for the way that public enterprises report information about operating segments in annual financial statements and requires reporting of selected information about operating segments in interim financial statements issued to the public. It also establishes standards for disclosures regarding products and services, geographic areas and major customers. SFAS No. 131 defines operating segments as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. This statement is effective for the Company in 1999.

SFAS No. *132, Employers' Disclosures About Pensions and Other Postretirement Benefits*, revises existing disclosure requirements for pension and other postretirement benefit plans thereby intending to improve the understandability of benefit disclosures, eliminate certain requirements that the Financial Accounting Standards Board believes are no longer necessary, and standardize footnote disclosures. This statement is effective for the Company for 1999 and requires comparative information for earlier years to be restated.

Management is currently evaluating the impact, if any, SFAS No. 130, SFAS No. 131 and SFAS No. 132 may have on future financial statement disclosures.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS No. 133 requires companies to recognize all derivatives contracts as either assets or liabilities in the balance sheet and to measure them at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge, the objective of which is to match the timing of gain or loss recognition on the hedging derivative with the recognition of (i) the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk or (ii) the earnings effect of the hedged forecasted transaction. For a derivative not designated as a hedging instrument, the gain or loss is recognized in income in the period of change. SFAS No. 133 is effective for fiscal years beginning after June 15, 1999.

Historically, the Company has not entered into derivatives contracts either to hedge existing risks or for speculative purposes. Accordingly, the Company does not expect adoption of the new standard for fiscal year 2000 to affect its financial statements.

2. Restructuring and Impairment of Assets

In fiscal 1996 the Board of Directors of the Company approved a restructuring plan. The restructuring and impairment charge of $3,496,000 primarily related to severance and employee benefit costs ($1,635,000), the write-down of assets to be disposed of to their fair market value ($1,509,000) and other costs ($352,000). The Board of Directors also authorized as part of the plan the liquidation of slow moving inventories of $863,000. After an income tax benefit of $1,534,000, these actions reduced fiscal year 1996 earnings by $2,825,000 or $.48 per diluted share.

During 1997, the sale of Modar was completed and resulted in an additional impairment charge of $373,235 which represents the difference between the original estimate and the actual loss from the sale. After a related income tax benefit of $127,000, fiscal year 1997 earnings were reduced by $246,235 or $.04 per diluted share.

A one-time restructuring charge of $3,992,276 was recorded in the third quarter of fiscal 1998 for Knape & Vogt Canada. Included in the restructuring charge is a reduction of the foreign currency translation adjustment account of $1,605,305. In March 1998, Knape & Vogt announced its plans to reorganize its Canadian operation, including the sale of the Company's manufacturing facility and equipment in the Toronto area. The sale was completed in May of 1998. The Company will continue to sell and distribute its products in Canada and maintain a sales office in the Toronto area. The after-tax effect of the sale was a loss of $3,392,276, or $.57 per diluted share.

The Company is in the process of completing the negotiation of a definitive agreement to sell The Hirsh Company, a wholly owned subsidiary (see Note 13). Hirsh manufactures free-standing shelving, wood storage products and workshop accessories. At June 30, 1998, the carrying value of the net assets subject to the sale was reduced to fair value based on the estimated selling price less costs to sell. This resulted in a pre-tax loss of $11,800,000, which is included in the restructuring and impairment of assets line of the consolidated statement of operations. The loss includes the write-off of the unamortized balance of goodwill recorded in connection with the purchase of Hirsh. In connection with the sale, the Company recognized an additional tax cost of $1,000,000, resulting in a total loss related to the sale of The

Hirsh Company of $12,800,000. Management expects to complete the sale during the first quarter of fiscal year ending June 30, 1999.

The components of the net assets held for sale as of June 30, 1998 are as follows:

Current assets	$ 4,483,000
Property and equipment	6,923,000
Other assets	8,985,000
Liabilities	(1,743,000)
Net assets held for sale	$ 18,648,000

Summary operating results for Hirsh (in thousands) are as follows:

Year Ended June 30,	1998	1997	1996
Revenues	**$ 35,634**	$ 36,589	$ 37,312
Costs and expenses	**47,880**	37,344	37,880
Income (loss) before taxes	**(12,246)**	(755)	(568)
Income tax expense (benefit)	**998**	(79)	(57)
Net income (loss)	**$ (13,244)**	$ (676)	$ (511)

3. Discontinued Operation

On August 20, 1996, the Company announced its decision to sell the Roll-it division of Knape & Vogt Canada Inc. (Roll-it), the Company's store fixture operation. Accordingly, Roll-it is reported as a discontinued operation, and the consolidated financial statements have been reclassified to segregate the net assets and operating results of the business.

The estimated loss recorded during fiscal 1996 on the sale of Roll-it was $3.9 million, which included a reduction in asset values of $3.6 million and a provision for anticipated closing costs and operating losses until disposal of $.3 million. The loss was reported net of an income tax benefit of $1.2 million, for an after-tax loss of $2.7 million.

During the third quarter of fiscal year 1997, the Company recorded an additional after-tax loss of $471,624 which was an adjustment to the estimated provision for operating loss of Roll-it through fiscal year 1997. Income or loss attributable to Roll-it's operations beyond fiscal year 1997 through the date of the sale will be reflected as incurred in each reporting period.

On March 27, 1998, the Company signed an agreement to sell Roll-it which resulted in an additional loss of $937,268, which represents the difference between the original estimate and the actual loss from the sale of Roll-it.

Summary operating results of the discontinued operation (in thousands) are as follows:

Year Ended June 30,	1998	1997	1996
Revenues	**$ 11,865**	$ 10,531	$ 13,540
Costs and expenses	**12,519**	11,237	13,990
Income (loss) before taxes	**(654)**	(706)	(450)
Income tax expense (benefit)	**(223)**	(234)	(112)
Net Income (Loss)	**$ (431)**	$ (472)	$ (338)

4. Inventories

Inventories are summarized as follows:

June 30,	1998	1997
Finished products	**$ 7,369,923**	$ 11,219,379
Work in process	**1,719,891**	1,950,391
Raw materials and supplies	**3,718,718**	5,459,684
	$12,808,532	$ 18,629,454

5. Long-Term Debt

At June 30, 1998 and 1997, long-term debt consisted of borrowings under an unsecured revolving credit agreement which provides for loans up to $47,500,000 with interest between 40 and 50 basis points above the federal funds rate depending on the Company's interest coverage ratio (averaging 6% for the month ended June 30, 1998). There was a $9,700,000 balance outstanding under the revolving credit agreement at June 30, 1998. The agreement contains certain covenants which the Company is in compliance with at June 30, 1998. The revolving credit agreement is required to be repaid by November 1, 1999. Annually, the Company may request that the maturity of the revolving credit agreement be extended by another year.

6. Retirement Plans

The Company has several noncontributory defined benefit pension plans and defined contribution plans covering substantially all of its employees. The defined benefit plans provide benefits based on the participants' years of service. The Company's funding policy for defined benefit plans is to make annual contributions which equal or exceed regulatory requirements. The Company's Board of Directors annually approves contributions to defined contribution plans. The pension and profit-sharing plans hold a combined total of 304,425 shares of the Company's Class B common stock with a market value of $6,849,563 and $4,870,800 at June 30, 1998 and 1997, respectively. Dividends paid to the plans totaled $182,655 for the years ended June 30, 1998 and 1997.

The Company also has a supplemental retirement program for designated officers of the Company which also includes death and disability benefits.

The costs of retirement benefits are as follows:

Year Ended June 30,	1998	1997	1996
Discretionary profit sharing	**$ 758,055**	$ 685,564	$ 585,965
Pension	**535,192**	309,415	261,781
Supplemental retirement	**320,534**	199,700	193,960
	$1,613,781	$ 1,194,679	$ 1,041,706

Net periodic cost for the pension plans include the following components:

Year Ended June 30,	1998	1997	1996
Service cost - benefits earned during the period	**$ 267,092**	$ 276,718	$ 280,075
Interest cost on projected benefit obligation	**885,949**	847,333	737,433
Actual return on plan assets	**(2,102,398)**	(1,504,890)	(1,208,193)
Net deferral and amortization of unrecognized amounts	**1,282,412**	715,578	452,466
Net periodic pension cost	**$ 333,055**	$ 334,739	$ 261,781

The weighted average discount rate used in determining the actuarial present value of the projected benefit obligation of the pension plans was 7.5% and 8.5% at June 30, 1998 and 1997, respectively. The expected long-term rate of return on plan assets was 8.5%.

The funded status of the pension plans is as follows:

June 30,	1998	1997
Actuarial present value of benefit obligations:		
Accumulated and projected benefit obligation, vested benefits of $11,799,750 and $10,280,087	**$ 12,292,838**	$ 10,681,208
Plan assets at fair value, primarily equity securities and fixed income funds	**13,389,253**	11,794,363
Plan assets in excess of projected benefit obligations	**1,096,415**	1,113,155
Unrecognized net obligations:		
Unrecognized net loss (gain)	**47,659**	(248,149)
Unrecognized prior service cost	**1,287,172**	1,421,142
Unrecognized transition net assets, being recognized over 12.4 years	**(293,700)**	(348,100)
Unrecognized net obligations	**1,041,131**	824,893
Prepaid pension cost included in other assets	**$ 2,137,546**	$ 1,938,048

7. Postretirement Health Care Benefits

The Company maintains a defined benefit postretirement plan for substantially all employees which provides certain health care benefits. Eligibility and benefits are based on age and years of service. On July 1, 1992, the Company adopted SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, on a prospective basis. The transition obligation represents the difference between the Company's July 1, 1992, accrued postretirement benefit costs prior to the adoption of SFAS No. 106 and the Plan's unfunded liability as of that date reduced by a 1994 revision in the eligibility definition for benefits. During 1998, the unrecognized prior service costs were combined with the above noted items and are all being amortized over 15 years.

The components of net periodic postretirement benefit cost are as follows:

Year Ended June 30,	1998	1997	1996
Service cost - benefits earned during the year	**$ 85,042**	$ 86,588	$ 82,461
Interest cost on projected benefit obligation	**156,507**	138,498	126,329
Amortization of transition liability over 15 years	**48,037**	93,861	93,861
Amortization of prior service costs	—	(57,279)	(57,279)
Amortization of unrecognized net loss	**27,614**	24,412	18,415
Net postretirement health care cost	**$ 317,200**	$ 286,080	$ 263,787

A reconciliation of the accumulated postretirement benefit obligation to the liability recognized in the consolidated balance sheets is as follows:

June 30,	1998	1997
Accumulated postretirement benefit obligation:		
Active participants	**$ 1,000,409**	$ 931,487
Retirees	**1,093,330**	769,823
	2,093,739	1,701,310
Unrecognized transition obligation	**(672,524)**	(1,407,902)
	1,421,215	293,408
Unrecognized net loss	**(679,380)**	(467,660)
Unrecognized prior service cost	—	687,341
Postretirement health care liability	**$ 741,835**	$ 513,089

The actuarial calculation assumes a health care inflation rate of 7.45% in 1998 and grades down uniformly to 5.0% in 2002 and remains level thereafter. The health care cost trend rate has an effect on the amounts reported. Increasing the health care inflation rate by 1% would increase the June 30, 1998, accumulated postretirement benefit obligation by $248,527, and the 1998 net postretirement health care cost by $33,551. The discount rate used in determining the accumulated postretirement benefit obligation was 7.5%. The Company's postretirement health care plans are not funded. Prior to 1993, the cost of providing postretirement benefits was expensed as incurred.

8. Lease Commitments

The Company is leasing certain real property and equipment under noncancelable agreements which expire at various dates through 2000. The definitive agreement being negotiated for the sale of Hirsh (see Notes 2 and 13) includes the assumption of the lease for the Hirsh building by the buyer of Hirsh.

Annual minimum rental payments required under operating leases are (excluding Hirsh) as follows:

Year Ending June 30,	
1999	$ 230,351
2000	141,956
	$ 372,307

Rent expense under all operating leases was approximately $1,848,000, $1,991,000 and $2,076,000 in 1998, 1997 and 1996, respectively.

9. Income Taxes

The components of income (loss) from continuing operations before taxes consists of:

Year Ended June 30,	1998	1997	1996
United States	**$ (919,274)**	$12,028,340	$ 5,603,192
Foreign	**(3,518,908)**	560,888	(465,134)
Income (loss) from continuing operations before income taxes	**$(4,438,182)**	$12,589,228	$ 5,138,058

Income tax expense (benefit) from continuing operations consists of:

Year Ended June 30,	1998	1997	1996
Current:			
United States	**$ 3,740,000**	$ 4,558,800	$ 3,189,000
Foreign	**541,000**	(115,000)	(152,000)
State and local	**368,000**	155,000	58,000
Total current	**4,649,000**	4,598,800	3,095,000
Deferred:			
United States	**377,000**	(546,800)	(1,159,000)
Foreign	**(955,000)**	287,000	14,000
State and local	**(140,000)**	(75,000)	85,000
Total deferred	**(718,000)**	(334,800)	(1,060,000)
Income tax expense	**$ 3,931,000**	$ 4,264,000	$ 2,035,000

The difference between the federal statutory tax rate and the effective tax rate on continuing operations is as follows:

Year Ended June 30,	1998	1997	1996
Income (loss) from continuing operations	**$(1,509,000)**	$ 4,280,000	$ 1,747,000
Foreign earnings taxed at different rates	**237,000**	109,000	(137,000)
Nondeductible losses - Hirsh Sale	**5,012,000**	—	—
Write-off of foreign currency translation adjustment	**546,000**	—	—
State and local income taxes	**530,000**	159,000	141,000
Tax credits and other	**(885,000)**	(284,000)	(73,000)
Tax bracket change	**—**	—	357,000
Income tax expense	**$ 3,931,000**	$ 4,264,000	$ 2,035,000

The sources of the net deferred income tax liability are as follows:

June 30,	1998	1997
Property and equipment	**$ 7,716,000**	$ 9,475,000
Pension accrual	**705,000**	756,000
Net operating loss carryforward	**(995,000)**	(1,308,000)
Stock basis of Canadian subsidiary	**(1,419,000)**	(1,105,000)
Other	**(65,000)**	(163,000)
	$ 5,942,000	$ 7,655,000

For Canadian tax purposes, the Company has net operating losses expiring through 2005 totaling approximately $5,000,000. The tax benefit reflected above for these loss carryforwards is net of a valuation allowance of $1,255,000.

10. Stock Option Plan

The 1987 Stock Option Plan granted key employees of the Company options to purchase shares of common stock. Options were granted at or above the market price of the Company's common stock on the date of the grant, were exercisable from that date and terminated ten years from the grant date. The plan, as amended in October 1994 and in October 1991, authorized a total of 300,000 shares to be available for issuance under the plan. Grants can no longer be made under the 1987 Stock Option Plan.

Transactions under the 1987 Stock Option Plan are as follows:

Year Ended June 30,	1998	Weighted average exercise price	1997	Weighted average exercise price
Options outstanding, beginning of year	**170,337**	**$ 15.55**	172,740	$ 15.57
Granted	**—**	**0.00**	50,000	15.50
Exercised	**(31,796)**	**16.40**	(22,760)	15.50
Forfeited	**(4,500)**	**17.00**	(29,643)	15.50
Options outstanding and exercisable, end of year	**134,041**	**$ 15.30**	170,337	$ 15.55
Options available for grant, end of year	**—**		26,610	
Weighted average fair value of options granted during the year	**N/A**		$ 4.92	

The Company accounts for its stock option plans in accordance with APB Opinion 25, *Accounting for Stock Issued to Employees*. Since the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of the grant, no compensation cost is recognized under APB Opinion 25. In accordance with SFAS No. 123, *Accounting for Stock-Based Compensation*, the Company is required to provide pro forma information regarding net income and earnings per share as if compensation costs for the Company's stock option plan had been determined using a fair value based estimate. The Company uses the Black-Scholes option-pricing model to determine the fair value of each option at the grant date with the following weighted average assumptions:

	1998	1997
Dividends per share	**$ 0.66**	$ 0.66
Expected volatility	**0.3134**	0.3592
Risk-free interest rate	**5.4%**	6.5%
Expected lives	**10.0**	9.3

Under the accounting provisions of SFAS No. 123, the Company's net income (loss), earnings per share and pro forma amounts are indicated below:

Year Ended June 30,	1998	1997
Net income (loss):		
As reported	**$(9,737,460)**	$7,853,604
Pro forma	**(9,737,460)**	7,680,684
Earnings per share:		
As reported	**(1.64)**	1.33
Pro forma	**(1.64)**	1.30

Shareholders at the 1997 annual meeting approved the Company's 1997 Stock Incentive Plan. Under this plan, up to 600,000 shares of the Company's common stock are available for issuance. Issuance can be in the form of stock options or restricted stock; however, no more than 50,000 shares can be issued as restricted stock. Stock options can be granted as incentive stock options or nonqualified stock options. The number of shares of common stock subject to an option granted to a participant under this plan will be determined based on the amount of the participant's election under the EVA bonus plan. Each participant may elect to receive options by electing to forego a portion of the cash bonus that may be earned by them, with the option price determined in accordance with the plan. The exercise price per share of common stock purchasable under an option shall be a single fixed exercise price equal to 100% of the fair market value of the common stock at the award date increased by a fixed percentage increase (based on U.S. Treasury Securities plus 2% less a projected dividend yield) compounded annually over the term of the option. In general, the options vest three years after the date of option was granted and expire five years after the grant date. No options or restricted stock shares were granted during fiscal 1998.

Of the 600,000 shares available for issuance under the 1997 Stock Incentive Plan, no more than 50,000 shares may be issued as restricted stock. The Executive Compensation Committee shall, subject to the approval of the Board of Directors, determine the eligible persons to whom, and the price (if any) to be paid by the participant. The participant shall not be permitted to sell, transfer, pledge, or assign the shares of the restricted stock awarded under this Plan. Subject to these limits, the Committee has sole discretion to set, accelerate or waive the restrictions of the stock. Except as provided above, upon issuance of the restricted stock, the participant will have all the rights of a shareholder with respect to the shares, including the right to vote them and to receive all dividends and other related distributions. If termination of employment occurs within the restricted period, all shares of stock still subject to restriction will vest or be forfeited in accordance with the terms and conditions established by the Committee.

In July 1, 1998, William Dutmers, Chairman of the Board of Knape & Vogt, was granted 10,500 shares of common stock. The stock is subject to restrictions on transfer for one year. The stock is the primary compensation for one year's service by Mr. Dutmers to the Company as Chairman of the Board of Directors. In addition, under the EVA bonus plan, Mr. Dutmers is eligible to receive a target bonus of 65% times the value of the above awarded shares which is determined by using the average stock price in the 30 day period preceding the date of grant. Mr. Dutmers has elected to utilize up to 50% of his fiscal 1999 target bonus to purchase leveraged stock options.

11. Stockholders' Equity

The Company has three classes of stock, common stock, Class B common stock and unissued preferred stock. Each share of common stock entitles the holder thereof to one vote on all matters submitted to the shareholders. Each share of Class B common stock entitles the holder to ten votes on all such matters, except that the holders of common stock are entitled to elect, voting separately as a class, at least one quarter of the Company's directors to be elected at each meeting held for the election of directors. In all other instances, holders of common stock and Class B common stock vote together, except for matters affecting the powers, preferences or rights of the respective classes or as otherwise required under the Michigan Corporation Act. With respect to dividend rights, each share of common stock is entitled to cash dividends at least ten percent (10%) higher than those payable on each share of Class B common stock. Class B common stock is subject to certain restrictions on transfer, but is convertible into common stock on a share-for-share basis at anytime.

12. Supplemental Cash Flow Information

Total interest paid during the years ended June 30, 1998, 1997 and 1996, was $1,310,066, $2,025,599 and $2,245,136, respectively.

Total income taxes paid during the years ended June 30, 1998, 1997 and 1996, were $3,686,753, $4,324,000 and $2,540,139, respectively.

In 1998 the Company recorded an accrued liability of approximately $3,000,000 in connection with the sale of Hirsh. The accrual represents closing and other costs associated with the planned sale of Hirsh.

13. Subsequent Events

The Board of Directors gave final approval on August 31, 1998, authorizing the purchase by the Company of up to 1,200,000 shares of the Company's common stock pursuant to a Dutch Auction self-tender offer at a price range to be determined. The self-tender offer will commence in September 1998. The Company plans to use a portion of the proceeds from the sale of Hirsh and its existing credit facility to fund the repurchase of shares of stock.

The Board also approved a purchase in the open market or in privately negotiated transactions, following the completion of the Dutch Auction, of shares of common stock in an amount which when added to the number of shares of common stock purchased in the Dutch Auction would equal 1,350,000.

Also, on August 31, 1998, the Company signed the definitive agreement to sell The Hirsh Co. (see Notes 2 and 8).

INDEPENDENT AUDITORS' REPORT

Knape & Vogt Manufacturing Company and Subsidiaries

Board of Directors
Knape & Vogt Manufacturing Company
Grand Rapids, Michigan

We have audited the accompanying consolidated balance sheets of Knape & Vogt Manufacturing Company and subsidiaries as of June 30, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended June 30, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Knape & Vogt Manufacturing Company and subsidiaries at June 30, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1998, in conformity with generally accepted accounting principles.

BDO Seidman, LLP

Grand Rapids, Michigan
August 7, 1998
(except for Note 13, as to which the date is August 31, 1998)

INTERESTING STATISTICS (UNAUDITED)

Knape & Vogt Manufacturing Company and Subsidiaries

PRODUCT LINE PERFORMANCE

Knape & Vogt Manufacturing Company essentially is in one business — storage products — with separate product lines within that business. Shelving systems include wall-attached and free-standing units. Drawer slides include precision, Euro-style and utility slides. There are over 100 items in the hardware category — closet rods, kitchen storage products and specialty hardware products. Furniture components include laminated particle board products used by furniture manufacturers. With the sale of Modar, this product line has been eliminated.

Year Ended June 30, *(sales in millions)*	1998	1997	1996	1995	1994
Shelving systems	**$ 83.0**	$ 82.0	$ 79.5	$ 80.8	$ 65.3
Drawer slides	**69.8**	62.3	52.4	52.0	50.9
Hardware	**28.8**	29.3	28.1	30.0	22.8
Furniture components	**0.0**	3.0	3.0	5.4	6.5
Total sales	**$181.6**	$ 176.6	$ 163.0	$ 168.2	$145.5

COMPARATIVE STATISTICS BY QUARTERS

Fiscal Year 1998	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales	$ 44,658,302	$ 42,677,957	$ 49,469,554	$ 44,826,757
Gross profit	11,503,905	10,243,477	11,554,926	8,997,592
Income (loss) from continuing operations	2,470,026	2,017,210	(1,056,822)	(11,799,596)
Discontinued operation, net of taxes	200,886	(294,525)	(1,274,639)	—
Net income (loss)	2,670,912	1,722,685	(2,331,461)	(11,799,596)
Income (loss) per share from continuing operations - diluted	0.42	0.34	(0.18)	(1.99)
Income (loss) per share from discontinued operation - diluted	0.03	(0.05)	(0.21)	—
Net income (loss) per share - diluted	0.45	0.29	(0.39)	(1.99)
Cash dividend - common stock	0.165	0.165	0.165	0.165
Cash dividend - Class B common stock	$ 0.15	$ 0.15	$ 0.15	$ 0.15

Fiscal Year 1997	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales	$ 44,848,318	$ 41,755,065	$ 46,072,548	$ 43,954,363
Gross profit	11,481,359	10,330,165	11,457,479	10,279,526
Income (loss) from continuing operations	2,346,592	1,814,728	2,061,419	2,102,489
Income (loss) from discontinued operation, net of taxes	—	—	(471,624)	—
Net income (loss)	2,346,592	1,814,728	1,589,795	2,102,489
Income (loss) per share from continuing operations - diluted	0.40	0.31	0.35	0.35
Income (loss) per share from discontinued operation - diluted	—	—	(0.08)	—
Net income (loss) per share - diluted	0.40	0.31	0.27	0.35
Cash dividend - common stock	0.165	0.165	0.165	0.165
Cash dividend - Class B common stock	$ 0.15	$ 0.15	$ 0.15	$ 0.15

OTHER STATISTICS

	1998	1997	1996	1995	1994
Average number of employees	**1,025**	1,061	1,084	1,136	1,137
Per employee:					
Sales	**$ 177,203**	$ 166,475	$ 150,380	$ 148,055	$ 127,972
Income (loss) from continuing operations	**(8,165)**	7,847	2,863	6,682	6,432
Total assets invested	**$ 101,496**	$ 118,512	$ 119,211	$ 115,699	$ 117,551

Selected Financial Data (Unaudited)

Knape & Vogt Manufacturing Company and Subsidiaries

Year Ended June 30,	1998	1997	1996	1995	1994
	(a)	*(b)*	*(c)*		*(d)*
Net sales	**$181,632,570**	$176,630,294	$163,012,030	$168,190,969	$145,504,536
Cost of sales	**139,332,670**	133,081,765	124,408,648	127,296,470	107,701,337
Operating expenses (excluding interest expense)	**45,513,688**	28,972,779	31,211,332	26,983,142	25,043,151
Interest expense	**1,224,394**	1,986,522	2,253,992	2,471,652	1,426,328
Income (loss) from continuing operations before taxes	**(4,438,182)**	12,589,228	5,138,058	11,439,705	11,333,720
Income taxes	**3,931,000**	4,264,000	2,035,000	3,849,000	4,020,000
Income (loss) from continuing operations	**(8,369,182)**	8,325,228	3,103,058	7,590,705	7,313,720
Income (loss) from discontinued operation	**(1,368,278)**	(471,624)	(3,037,926)	654,433	842,556
Net income (loss)	**(9,737,460)**	7,853,604	65,132	8,245,138	8,156,276
Diluted earnings per share from continuing operations	**(1.41)**	1.41	0.53	1.29	1.24
Diluted earnings per share from discontinued operation	**(0.23)**	(0.08)	(0.52)	0.11	0.14
Diluted earnings per share	**(1.64)**	1.33	0.01	1.40	1.38
Dividends paid	**3,760,383**	3,738,138	3,727,321	3,722,814	3,373,493
Dividend payout, percent of income from continuing operations	**(45%)**	45%	120%	49%	46%
Dividends per share - common	**0.66**	0.66	0.66	0.66	0.60
Dividends per share - Class B common	**0.60**	0.60	0.60	0.60	0.545
Percentage of pre-tax income (loss) from continuing operations to sales	**(2.4%)**	7.1%	3.2%	6.8%	7.8%
Capital expenditures	**4,228,552**	7,763,482	8,032,779	4,181,472	3,837,249
Depreciation	**$ 6,604,799**	$ 6,542,750	$ 6,190,031	$ 5,876,391	$ 5,250,453

At Year-End	1998	1997	1996	1995	1994
Working capital	**$ 38,276,167**	$ 39,266,034	$ 39,535,991	$ 45,796,753	$ 39,572,003
Ratio of current assets to current liabilities	**2.5**	4.2	4.0	5.8	3.4
Net property and equipment	**36,654,720**	48,586,802	50,381,608	48,698,785	50,395,355
Total assets	**104,033,087**	125,741,698	129,225,159	131,433,714	133,655,919
Total debt	**9,700,000**	29,000,000	35,000,000	35,800,000	40,000,000
Debt to equity, percent	**16%**	39%	51%	49%	59%
Stockholders' equity	**61,756,674**	73,460,498	69,173,750	72,713,836	67,973,890
Weighted average shares outstanding - basic	**5,920,380**	5,889,420	5,881,069	5,879,914	5,872,160
Weighted average shares outstanding - diluted	**5,954,713**	5,903,237	5,897,141	5,893,651	5,896,164
Stockholders' equity per share - diluted	**$ 10.37**	$ 12.44	$ 11.73	$ 12.34	$ 11.53

(a) 1998 figures include 1) an adjustment to the inventory obsolescence reserve of $910,000 recorded in cost of sales; 2) a restructuring charge for the reorganization of KV Canada of $3,992,276 recorded in operating expenses, and an income tax benefit of $600,000, for an after-tax effect of $3,392,276, or $0.57 per basic and diluted share; 3) an impairment charge for the sale of Hirsh of $11,800,000 recorded in operating expenses, and an income tax expense of $1,000,000, for an after-tax effect of $12,800,000, or $2.16 per basic and diluted share; 4) a $448,284 write-off of idle equipment; and 5) an after-tax charge of $937,268 or $0.16 per basic and diluted share to record the sale of Roll-it, a discontinued operation.

(b) 1997 figures include an after-tax charge of $246,235 or $0.04 per share to record the March 1997 sale of Modar.

(c) 1996 figures include an inventory liquidation of $863,000 recorded in cost of sales, a restructuring charge of $3,496,000 recorded in operating expenses, and an income tax benefit of $1,534,000, for an after-tax effect of $2,825,000, or $0.48 per share. The 1996 figures also include an after-tax charge of $2,700,000 to recognize the estimated loss on the sale of Roll-it, the Company's discontinued store fixture operation.

(d) All per share data and weighted average shares outstanding have been adjusted to reflect a 10 percent stock dividend paid in September 1994.

CORPORATE HEADQUARTERS

Knape & Vogt Manufacturing Company
2700 Oak Industrial Dr., N.E.
Grand Rapids, MI 49505-6083
(616) 459-3311

KV ON THE WORLD WIDE WEB

The KV home page — www.kv.com — is your entry point for information about KV, including company news, details on products and investor information.

ANNUAL MEETING

Shareholders are cordially invited to attend Knape & Vogt's annual shareholders' meeting to be held at 11:30 a.m. on Friday, October 16, 1998, at Donnelly Conference Center, Aquinas College, 157 Woodward Lane, S.E., Grand Rapids, Michigan.

QUARTERLY EARNINGS RELEASE

The Company does not print and mail quarterly reports to shareholders. To improve cost effectiveness, the Company began mailing its quarterly earnings release to those shareholders who requested to be added to the mailing list. If you would like to be added to the mailing list or have inquiries or requests for information, please contact Jack D. Poindexter, CFO, Knape & Vogt Manufacturing Company, 2700 Oak Industrial Dr., N.E., Grand Rapids, MI 49505-6083, or e-mail us at investor@kv.com.

STOCK LISTING

Knape & Vogt's common stock is traded on the NASDAQ National Market under the ticker symbol KNAP. Stock price quotations can be found in major daily newspapers (listed KnapeV) and in the *Wall Street Journal* (listed KnapeVogt). As of July 31, 1998, the Company had approximately 3,300 shareholders.

FORM 10-K AND OTHER INVESTOR INFORMATION

Shareholders who wish to obtain a copy of the Form 10-K annual report filed with the Securities and Exchange Commission or other investor information should send a written request to the Company's Chief Financial Officer.

INDEPENDENT ACCOUNTANTS

BDO Seidman, LLP
Grand Rapids, Michigan

CORPORATE COUNSEL

Varnum, Riddering, Schmidt & Howlett
Grand Rapids, Michigan

QUARTERLY STOCK DIVIDENDS

The Company is expected to issue quarterly stock dividends beginning in the second quarter of fiscal 1999.

TRANSFER AGENT

Harris Trust and Savings Bank serves as the transfer agent for the Company. Inquiries relating to stock transfers, changes of ownership, lost or stolen stock certificates, changes of address and dividend payments should be addressed to: Harris Trust and Savings Bank, P.O. Box A3504, Chicago, IL 60690-3504, phone (312) 360-5100.

MARKET PRICE OF COMMON STOCK

	Fiscal 1998		Fiscal 1997	
Quarter	**High**	**Low**	**High**	**Low**
First	18.50	15.88	16.88	12.25
Second	22.75	18.50	17.63	14.25
Third	23.00	20.00	18.50	15.50
Fourth	24.75	21.25	17.00	14.75

EQUAL OPPORTUNITY EMPLOYER

Knape & Vogt is an equal employment opportunity employer and to that end, does not unlawfully discriminate against individuals with regards to their race, color, national origin, religion, sex, age or disability.

Corporate Information

BOARD OF DIRECTORS

William R. Dutmers
Chairman of the Board

Allan E. Perry
President and
Chief Executive Officer

Mary Rita Cuddohy
Private Investor

John E. Fallon
Private Investor

Herbert F. Knape
President
Knape Industries, Inc.

Raymond E. Knape
Former Chairman and
Chief Executive Officer
Knape & Vogt
Manufacturing Company

Richard S. Knape
Private Investor

Michael J. Kregor
Vice President
National Sales
Griffith Laboratories

Richard C. Simkins
Executive Vice President

OPERATING COMMITTEE

Allan E. Perry
President and
Chief Executive Officer

Jack D. Poindexter
Chief Financial Officer
and Treasurer

Michael G. Van Rooy
Senior Vice President
Manufacturing

John W. Vogus
Vice President
Sales and Marketing

Peter L. Bilski
Director of Human Resources

Larry D. Miller
Director of Operations

Robert A. Wolfsen
Director of Information Services

KNAPE & VOGT 1898 1998

A Century of Progress

ANNUAL REPORT