

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

- Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
- Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the transition period from _____ to _____

Commission File Number: 000-25939

THE KELLER MANUFACTURING COMPANY, INC.
(Exact name of registrant as specified in its charter)

Indiana
(State or other jurisdiction of
incorporation or organization)

35-0435090
(I.R.S. Employer
identification No.)

701 N. Water Street, Corydon, Indiana
(Address of principal executive offices)

47112
(Zip Code)

812-738-2222
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

As of March 31, 2002, the registrant had 5,414,111 Common shares, no par value, outstanding.

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THE KELLER MANUFACTURING COMPANY, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
MARCH 31, 2002 AND 2001 AND DECEMBER 31, 2001

ASSETS	MARCH 31		DECEMBER 31
	2002	2001	2001
	(Unaudited)		
CURRENT ASSETS:			
Cash and cash equivalents	\$ 3,501,581	\$ 99,833	\$ 2,591,312
Accounts receivable, less allowance for doubtful accounts of \$788,000 (March 31, 2002) \$247,000 (March 31, 2001) and \$886,000 (December 31, 2001)	5,334,724	6,990,892	5,477,814
Inventories	13,165,652	21,065,958	13,826,149
Current deferred tax asset	781,783	374,900	527,210
Income taxes receivable	1,013,216	5,218	1,576,296
Other current assets	<u>457,202</u>	<u>226,557</u>	<u>158,016</u>
Total current assets	<u>24,254,158</u>	<u>28,763,358</u>	<u>24,156,797</u>
PROPERTY, PLANT AND EQUIPMENT - net	9,801,010	10,653,287	10,050,750
PREPAID PENSION COSTS	<u>1,627,581</u>	<u>1,727,789</u>	<u>1,775,509</u>
TOTAL	<u>\$35,682,749</u>	<u>\$41,144,434</u>	<u>\$35,983,056</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Notes payable under line of credit		\$ 500,000	
Accounts payable	\$ 1,036,945	1,269,982	\$ 524,919
Commissions, salaries and withholdings	547,659	744,433	513,127
Accrued vacation	699,268	538,262	643,699
Allowance for sales returns	245,000	214,944	245,000
Other current liabilities	<u>939,457</u>	<u>921,948</u>	<u>994,439</u>
Total current liabilities	3,468,329	4,189,569	2,921,184
LONG-TERM LIABILITIES -			
Deferred income taxes	<u>1,301,121</u>	<u>1,298,000</u>	<u>1,267,005</u>
Total liabilities	<u>4,769,450</u>	<u>5,487,569</u>	<u>4,188,189</u>
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDERS' EQUITY:			
Common stock - no par value, authorized 40,000,000 shares, issued and outstanding 5,414,111 (March 31, 2002), 5,634,111 (March 31, 2001), and 5,414,111 (December 31, 2001)	1,746,646	1,809,478	1,746,646
Retained earnings	<u>29,166,653</u>	<u>33,847,387</u>	<u>30,048,221</u>
Total stockholders' equity	<u>30,913,299</u>	<u>35,656,865</u>	<u>31,794,867</u>
TOTAL	<u>\$35,682,749</u>	<u>\$41,144,434</u>	<u>\$35,983,056</u>

See notes to consolidated financial statements

THE KELLER MANUFACTURING COMPANY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS
 THREE MONTHS ENDED MARCH 31, 2002 AND 2001

	THREE MONTHS ENDED MARCH 31	
	<u>2002</u>	<u>2001</u>
	(Unaudited)	
NET SALES	\$ 9,682,467	\$11,459,954
COST OF SALES	<u>8,928,305</u>	<u>8,904,182</u>
GROSS PROFIT	754,162	2,555,772
SELLING, GENERAL AND ADMINISTRATIVE	<u>1,872,693</u>	<u>1,994,880</u>
OPERATING INCOME (LOSS)	<u>(1,118,531)</u>	<u>560,892</u>
OTHER INCOME (EXPENSE):		
Interest income	8,252	2,348
Interest expense	(104)	(1,606)
Other	<u>64,387</u>	<u>4,908</u>
Other income, net	<u>72,535</u>	<u>5,650</u>
INCOME (LOSS) BEFORE INCOME TAXES	(1,045,996)	566,542
INCOME TAX EXPENSE (BENEFIT)	<u>(353,932)</u>	<u>201,716</u>
NET INCOME (LOSS)	<u>\$ (692,064)</u>	<u>\$ 364,826</u>
NET INCOME (LOSS) PER SHARE OF COMMON STOCK, basic and dilutive - based on weighted average number of shares outstanding of 5,414,111 (2002) 5,614,682 (2001)	<u>\$ (0.13)</u>	<u>\$ 0.06</u>

See notes to the consolidated financial statements

THE KELLER MANUFACTURING COMPANY, INC., AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2002 AND 2001**

	THREE MONTHS ENDED MARCH 31	
	<u>2002</u>	<u>2001</u>
	(Unaudited)	
OPERATING ACTIVITIES:		
Net income (loss)	\$ (692,064)	\$ 364,826
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	332,100	425,700
Deferred income taxes	(220,457)	206,934
Common stock awards		3,380
Changes in assets and liabilities:		
Accounts receivable	143,090	1,405,546
Inventories	660,497	(1,490,801)
Income taxes receivable	563,080	(264,169)
Other current assets	(299,186)	(62,957)
Prepaid pension costs	147,928	124,139
Accounts payable	512,026	(305,997)
Commissions, salaries and withholdings and accrued vacation	90,101	(130,394)
Allowance for sales returns		(741,959)
Other current liabilities	<u>(54,982)</u>	<u>(41,473)</u>
Net cash provided by (used in) operating activities	<u>1,182,133</u>	<u>(507,325)</u>
INVESTING ACTIVITIES -		
Purchases of property, plant and equipment	<u>(82,360)</u>	<u>(180,244)</u>
FINANCING ACTIVITIES:		
Borrowings under line of credit		500,000
Issuance of common stock		77,585
Dividends paid	<u>(197,065)</u>	<u>(196,369)</u>
Net cash provided by (used in) financing activities	<u>(197,065)</u>	<u>381,216</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	902,708	(306,353)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>2,591,312</u>	<u>406,186</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 3,494,020</u>	<u>\$ 99,833</u>
CASH PAID (REFUNDED) DURING THE YEAR FOR:		
Interest		<u>\$ 1,600</u>
Income taxes	<u>\$ (698,000)</u>	<u>\$ 175,000</u>

See notes to consolidated financial statements.

Note 1. Basis of Presentation

The interim financial statements are unaudited and reflect all adjustments (consisting solely of normal recurring adjustments) that, in the opinion of management, are necessary for a fair statement of results for the interim periods presented. This report should be read in conjunction with the audited consolidated financial statements included in the Form 10-K filed by the Company with the Securities and Exchange Commission. The results of operations for the three months ended March 31, 2002 are not necessarily indicative of the results to be expected for the full year or any other interim period.

Note 2. Inventories

The following is a summary of the major classes of inventories:

	<u>March 31, 2002</u>	<u>March 31, 2001</u>	<u>December 31, 2001</u>
Raw materials	\$ 4,144,562	\$ 7,275,093	\$ 4,653,468
Work-in-process	5,807,833	10,148,336	6,126,523
Finished goods	<u>3,213,257</u>	<u>3,642,529</u>	<u>3,046,158</u>
Net inventories	<u>\$13,165,652</u>	<u>\$21,065,958</u>	<u>\$13,826,149</u>

Note 3. Recent Accounting Pronouncements

Statement of Financial Accounting Standards "SFAS" No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets," establishes accounting and reporting standards for the impairment or disposal of long-lived assets. The Company adopted this statement effective January 1, 2002. Management has concluded that the adoption of this statement did not have a material effect on the Company's financial position, results of operations, or cash flows.

SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets", were adopted by the Company effective January 1, 2002. These statements require the use of the purchase method to account for all business combinations and broaden the criteria for recording acquired intangible assets separate from goodwill. The statements also do not allow goodwill or intangible assets with indefinite lives to be amortized and require that goodwill be tested for impairment at least annually. Management has concluded that the adoption of these statements did not have a material effect on the Company's financial position, results of operations, or cash flows.

Note 4. Disclosure of Certain Significant Risks and Uncertainties

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The Company's periodic filings with the Securities and Exchange Commission include, where applicable, disclosures of estimates, assumptions, uncertainties and concentrations in products, sources of supply and markets that could affect the consolidated financial statements and future operations of the Company.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion contains statements that constitute forward looking statements within the meaning of the securities laws. Such statements may include statements regarding the intent, belief or current expectations of The Keller Manufacturing Company, Inc. (the "Company") or its officers with respect to (i) the Company's strategic plans, (ii) the policies of the Company regarding capital expenditures, financing or other matters, and (iii) industry trends affecting the Company's financial condition or results of operations. Readers of this discussion are cautioned that any such forward looking statements are not guarantees of future performance and involve risks and uncertainties and that actual results may differ materially from those in the forward looking statements as a result of various factors. This report should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included its Form 10K filed by the Company with the Securities and Exchange Commission.

Results of Operations

The following table sets forth, for the periods indicated, consolidated statement of income data as a percentage of net sales.

	<u>THREE MONTHS ENDED</u>	
	<u>MARCH 31</u>	
	<u>2002</u>	<u>2001</u>
Net Sales	100.0%	100.0%
Cost of Sales	92.2%	77.7%
Gross Profit	7.8%	22.3%
Selling, General and Administrative	19.3%	17.4%
Operating Income (Loss)	(11.6)%	4.9%
Other Income, Net	*	*
Income (Loss) Before Taxes	(10.8)%	4.9%
Income Taxes (Benefit)	(3.7)%	1.8%
Net Income (Loss)	(7.1)%	3.1%

Three Months Ended March 31, 2002, compared to three months ended March 31, 2001

Net Sales. Net Sales decreased approximately \$1.8 million to approximately \$9.7 million for the first quarter 2002 compared to approximately \$11.5 million in the first quarter 2001. This was a decrease of approximately 15.5% in net sales. The primary factor for the decrease in sales was due to a decrease in orders resulting from the continued slow down in the economy. There was a decrease in orders of approximately 17.1% in the first quarter 2002 as compared to the first quarter 2001.

* Less than 1%.

Cost of Sales. Cost of Sales as a percentage of net sales increased to 92.2% for the first quarter 2002 from 77.7% for the first quarter 2001. The increase in Cost of Sales as a percentage of net sales resulted from lower sales volume. During the fourth quarter of 2001, the Company recorded an adjustment related to the writedown of inventory as a result of a physical inventory count conducted during the fourth quarter. Management was unable to determine the impact, if any, of such adjustment to previous quarters (including the first quarter of 2001) and accordingly, recorded the adjustment in the fourth quarter of 2001. Actual Cost of Sales was approximately \$8.9 million for both the first quarter 2002 and 2001. Direct labor and material cost decreased approximately \$0.8 million for the first quarter 2002 as compared to the first quarter 2001. Such decrease resulted primarily from the reduced production volume.

Selling, General and Administrative Expenses (S G & A). S G & A decreased for the first quarter of 2002 as compared to the first quarter of 2001 by approximately \$0.1 million. As a percentage of net sales, S G & A increased from 17.4% for the first quarter 2001 to 19.3% for the first quarter 2002. Such increase was the result of the lower sales volume for the first quarter 2002.

Net Income (Loss). As a result of the above factors, net loss for the first quarter 2002 was approximately \$0.7 million as compared to approximately \$0.4 million net income for the first quarter 2001.

Financial Condition and Liquidity

Net working capital decreased from approximately \$24.6 million at March 31, 2001, to approximately \$20.8 million at March 31, 2002. The current ratio increased slightly from 6.9 at March 31, 2001 to 7.0 at March 31, 2002. Inventory decreased approximately \$7.9 million at March 31, 2002 as compared to March 31, 2001. Such decrease in inventory primarily resulted from lower production volumes due to lower sales volume and management's decision to operate at a reduced inventory level. Accounts receivable decreased approximately \$1.7 million at March 31, 2002 as compared to March 31, 2001. Such decrease in accounts receivable primarily resulted from lower sales volume. The company anticipates being able to fund its financing and investing activities from cash generated from operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Not Applicable

Item 2. Changes in Securities and Use of Proceeds

Not Applicable

Item 3. Defaults Upon Senior Securities

Not Applicable

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

Not Applicable

Item 5. Other Information

Dividend Action

The Board of Directors approved a dividend of \$0.035 per share for the first quarter 2002 at their April 26, 2002 meeting, for shares owned as of the record date of May 10, 2002, payable on May 20, 2002.

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits. See Index to Exhibits
- (b) Reports on Form 8-K. No report on Form 8-K was filed during the quarter for which this report is filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE KELLER MANUFACTURING COMPANY, INC.

Steven W. Robertson
President and Chief Executive Officer

Danny L. Utz
Vice President, Finance
Chief Financial Officer

INDEX TO EXHIBITS

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
3.01	Restated Articles of Incorporation of the Company (Incorporated by reference to Exhibit 3.01 to the Company's Amendment No. 2 to its registration statement on Form 10 filed July 23, 1999, File No. 000-25939).
3.02	Articles of Amendment of the Restated Articles of Incorporation of the Company (Incorporated by reference to Exhibit 3.02 to the Company's Amendment No. 2 to its registration statement on Form 10, filed July 23, 1999, File No. 000-25939).
3.03	Articles of Amendment of the Restated Articles of Incorporation of the Company (Incorporated by reference to Exhibit 3.03 to the Company's Amendment No. 2 to its registration statement on Form 10, filed July 23, 1999, File No. 000-25939).
3.04	Bylaws of the Company (Incorporated by reference to Exhibit 3.04 to the Company's Amendment No. 2 to its registration statement on Form 10, filed July 23, 1999, File No. 000-25939).
4.01	Form of Shareholders Rights Agreement, dated as of December 18, 1998, by and between the Company and J.J.B. Hilliard, W.L. Lyons, Inc. as Rights Agent (Incorporated by reference to Exhibit 4.01 to the Company's Amendment No. 2 to its registration statement on Form 10, filed July 23, 1999, File No. 000-25939).
4.02	See Article IV of the Restated Articles of Incorporation of the Company found in Exhibit 3.01 (Incorporated by reference to Exhibit 4.02 to the Company's Amendment No. 2 to its registration statement on Form 10, filed July 23, 1999, File No. 000-25939).
4.03	See Article II of the Bylaws of the Company found in Exhibit 3.04 (Incorporated by reference to Exhibit 4.03 to the Company's Amendment No. 2 to its registration statement on Form 10, filed July 23, 1999, File No. 000-25939).
10.01	Form of "Lease of Space in International Home Furnishings Center" dated as of May 1, 1999, by and between the Company and International Home Furnishings Center, Inc. (Incorporated by reference to Exhibit 10.01 to the Company's Amendment No. 2 to its registration statement on Form 10, filed July 23, 1999, File No. 000-25939).
10.03	Form of "Effective Management Systems, Inc. Software License, Professional Services and Support Purchase Agreement" dated as of July 6, 1998, by and between the Company and Effective Management Systems, Inc. (Incorporated by reference to Exhibit 10.03 to the Company's Amendment No. 2 to its registration statement on Form 10, Filed July 23, 1999, File No. 000-25939).

- 10.04 Form of "Extended Hour Support Agreement" by and between the Company and Effective Management Systems, Inc., dated as of July 6, 1998, by and between the Company and Effective Management Systems, Inc. (Incorporated by reference to Exhibit 10.03 to the Company's Amendment No. 2 to its registration statement on Form 10, Filed July 23, 1999, File No. 000-25939).
- 10.05 Form of "Lease Agreement" by and between the Company and Trailer Leasing Company. (Incorporated by reference to Exhibit 10.05 to the Company's Amendment No. 2 to its registration statement on Form 10, filed July 23, 1999, File No. 000-25939).
- 10.06 Form of "Ryder Truck Rental, Inc. Truck Lease and Service Agreement" by and between the Company and Ryder Truck Rental, Inc. with accompanying schedules (Incorporated by reference to Exhibit 10.06 to the Company's Amendment No. 2 to its registration statement on Form 10, filed July 23, 1999, File No. 000-25939).
- 10.07 Schedules to Exhibits 10.04 and 10.05. (Incorporated by reference to Exhibit 10.07 to the Company's Amendment No. 2 to its registration statement on Form 10, filed July 23, 1999, File No. 000-25939).
- 10.08 The Keller Manufacturing Company, Inc. Craftsman Stock Option Plan (Incorporated by reference to Exhibit 10.08 to the Company's Amendment No. 2 to its registration statement on Form 10, filed July 23, 1999, File No. 000-25939).
- 10.09 The Keller Manufacturing Company, Inc. Board of Directors' Stock Bonus Awards Plan (Incorporated by reference to Exhibit 10.09 to the Company's Amendment No. 2 to its registration statement on Form 10, filed July 23, 1999, File No. 000-25939).
- 10.10 The Keller Manufacturing Company, Inc. Incentive Program for Executive Personnel (Incorporated by reference to Exhibit 10.10 to the Company's Amendment No. 2 to its registration statement on Form 10, filed July 23, 1999, File No. 000-25939).