

***The Keller Manufacturing
Company, Inc. and
Subsidiary***

*Consolidated Unaudited Financial Statements
for the three months ending March 31, 2004
and 2003*

THE KELLER MANUFACTURING COMPANY, INC. AND SUBSIDIARY

**CONSOLIDATED BALANCE SHEETS
MARCH 31, 2004 AND 2003 AND DECEMBER 31, 2003**

	<u>2004</u>	<u>MARCH 31,</u> <u>2003</u> <u>(Unaudited)</u>	<u>DECEMBER 31,</u> <u>2003</u>
ASSETS			
CURRENT ASSETS:			
Cash	\$ 1,955,443	\$ 2,501,590	\$ 2,648,818
Investments available for sale	2,258,736	1,747,251	2,760,013
Accounts receivable, less allowance for doubtful accounts of \$841,000 at March 31, 2004, \$420,000 at March 31, 2003 and \$846,000 at December 31, 2003	1,811,379	4,053,920	1,672,656
Inventories	4,702,637	8,639,792	5,073,080
Deferred tax asset	-	991,607	-
Income taxes refundable	2,421	2,301,639	1,421
Other current assets	76,909	185,988	95,146
Total Current Assets	10,807,525	20,421,787	12,251,134
PROPERTY, PLANT AND EQUIPMENT - net	4,814,867	8,263,749	4,740,884
OTHER ASSETS:			
Net assets available for sale	138,159	661,048	371,163
Deferred tax asset	-	-	-
Total Other Assets	138,159	661,048	371,163
TOTAL ASSETS	\$ 15,760,551	\$ 29,346,584	\$ 17,363,181
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable	\$ 1,310,025	\$ 480,055	\$ 1,465,447
Accrued commissions, salaries & withholdings	119,849	420,292	193,702
Accrued vacation	380,531	545,212	393,746
Accrued pension liability	-	508,477	-
Allowance for sales returns	480,270	303,742	480,270
Restructuring reserve	-	57,330	-
Accrued health, life & workers comp. insurance	574,988	725,364	561,907
Accrued property taxes	180,000	345,948	180,000
Other current liabilities	422,046	85,941	313,715
Total Current Liabilities	3,467,709	3,472,361	3,588,787
LONG-TERM LIABILITIES:			
Accrued pension liability	1,685,415	1,339,255	1,655,415
Deferred income taxes	-	180,085	-
Other long-term liabilities	38,580	107,890	38,580
Total Long-Term Liabilities	1,723,995	1,627,230	1,693,995
TOTAL LIABILITIES	5,191,704	5,099,591	5,282,782
STOCKHOLDERS' EQUITY:			
Common stock - no par value, authorized 40,000,000 shares, issued and outstanding 5,177,800 (March 31, 2004), 5,269,111 (March 31, 2003) and 5,177,800 (December 31, 2003).	1,671,317	1,699,863	1,671,317
Deferred stock compensation	122,162	-	73,163
Accumulated other comprehensive loss	(1,647,776)	(1,874,914)	(1,650,088)
Retained earnings	10,423,144	24,422,044	11,986,007
Total Stockholders' Equity	10,568,847	24,246,993	12,080,399
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 15,760,551	\$ 29,346,584	\$ 17,363,181

THE KELLER MANUFACTURING COMPANY, INC. AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDING MARCH 31, 2004 AND 2003**

	THREE MONTHS ENDING MARCH 31,	
	<u>2004</u>	<u>2003</u>
	(Unaudited)	
NET SALES	\$ 4,140,655	\$ 7,837,469
COST OF SALES	<u>4,716,113</u>	<u>7,018,742</u>
GROSS PROFIT (LOSS)	(575,458)	818,727
SELLING, GENERAL AND ADMINISTRATIVE	<u>1,538,152</u>	<u>1,332,660</u>
OPERATING LOSS	(2,113,610)	(513,933)
OTHER INCOME (EXPENSE):		
Interest income	17,737	8,727
Interest expense	(730)	(5,350)
Gain on sales of fixed assets	541,334	-
Other income (expense)	<u>(7,596)</u>	<u>14,135</u>
Total Other Income (Expense), net	<u>550,745</u>	<u>17,512</u>
LOSS BEFORE INCOME TAXES	(1,562,865)	(496,421)
INCOME TAX PROVISION (BENEFIT)	<u>-</u>	<u>(155,880)</u>
NET LOSS	<u>\$ (1,562,865)</u>	<u>\$ (340,541)</u>

**NET LOSS PER SHARE OF COMMON STOCK,
BASIC AND DILUTIVE -**

Based on weighted average number of shares outstanding of 5,177,800 and 5,299,983 at March 31, 2004 and 2003, respectively.

\$ (0.30) \$ (0.06)

THE KELLER MANUFACTURING COMPANY, INC. AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDING MARCH 31, 2004 AND 2003**

	THREE MONTHS ENDING MARCH 31,	
	<u>2004</u>	<u>2003</u>
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	\$ (1,562,865)	\$ (340,541)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	240,000	294,768
(Gain) Loss on fixed asset disposals	(541,334)	-
Bad debt expense	-	30,000
Deferred income taxes	-	(156,060)
Compensation for stock options granted	48,999	-
Changes in Assets and Liabilities		
Accounts receivable	(138,723)	(276,103)
Inventory	370,443	1,149,156
Income taxes refundable / payable	(1,000)	-
Other current assets	18,237	(3,211)
Prepaid pension costs / accrued pension liability	30,000	57,830
Accounts payable	(155,422)	(180,110)
Accrued commissions, salaries & withholdings & accrued vacation	(87,068)	(19,280)
Allowance for sales returns	-	(44,239)
Restructuring reserve	-	(184,969)
Accrued health, life & workers compensation insurance	13,081	(86,503)
Accrued property taxes	-	66,679
Other liabilities	135,831	(247,260)
Total Adjustments	(66,956)	400,698
Net Cash Provided By (Used In) Operating Activities	(1,629,821)	60,157
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant & equipment	(569,360)	(68,060)
Proceeds from sales of property, plant & equipment	1,002,217	-
Purchases of investments available for sale	(1,496,411)	(493,814)
Proceeds from disposal of investments available for sale	2,000,000	-
Net Cash Provided By (Used In) Investing Activities	936,446	(561,874)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Redemptions of common stock	-	(76,144)
Issuance of common stock	-	-
Dividends paid	-	(92,783)
Net Cash Used In Financing Activities	-	(168,927)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(693,375)	(670,644)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,648,818	3,172,234
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 1,955,443	\$ 2,501,590