

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.
For quarterly period ending June 30, 2002
- 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 June 30, 2002, the registrant had 5,376,611 shares of Common Stock, no par value, outstanding.

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THE KELLER MANUFACTURING COMPANY, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS JUNE 30, 2002 AND 2001 AND DECEMBER 31, 2001

	<u>JUNE 30,</u>	<u>DECEMBER 31,</u>
	<u>2002</u>	<u>2001</u>
	<u>(Unaudited)</u>	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,293,654	\$ 847,980
Accounts receivable, less allowance for doubtful accounts of \$805,000 (June 30, 2002), \$227,000 (June 30, 2001) and \$886,000 (December 31, 2001)	5,199,150	6,865,363
Inventories	12,231,118	20,645,499
Current deferred tax asset	728,284	376,959
Income taxes receivable	635,982	-
Other current assets	<u>424,461</u>	<u>208,710</u>
Total current assets	23,512,649	28,944,511
PROPERTY, PLANT AND EQUIPMENT - net	9,624,395	10,389,727
PREPAID PENSION COSTS	<u>1,479,652</u>	<u>1,603,650</u>
TOTAL	<u>\$34,616,696</u>	<u>\$40,937,888</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable under line of credit		\$ 250,000
Accounts payable	\$ 624,894	1,347,910
Commissions, salaries and withholdings	584,551	408,004
Accrued vacation	742,801	563,716
Income taxes payable	-	344,284
Allowances for sales returns	245,000	214,944
Other current liabilities	<u>1,131,677</u>	<u>548,652</u>
Total current liabilities	3,328,923	3,677,510
LONG-TERM LIABILITIES -		
Deferred income taxes	<u>1,147,865</u>	<u>1,275,804</u>
Total liabilities	<u>4,476,788</u>	<u>4,953,314</u>
COMMITMENTS AND CONTINGENCIES	-	-
STOCKHOLDERS' EQUITY:		
Common stock - no par value, authorized, 40,000,000 shares, issued and outstanding 5,376,611 (June 30, 2002), 5,634,111 (June 30, 2001) and 5,414,111 (December 31, 2001)	1,615,396	1,809,478
Retained earnings	<u>28,524,512</u>	<u>34,175,096</u>
Total stockholders' equity	<u>30,139,908</u>	<u>31,794,867</u>
TOTAL	<u>\$34,616,696</u>	<u>\$40,937,888</u>

See notes to consolidated financial statements

THE KELLER MANUFACTURING COMPANY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS THREE MONTHS ENDED AND THE SIX MONTHS ENDED JUNE 30, 2002 AND 2001

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2002 (Unaudited)	2001 (Unaudited)	2002 (Unaudited)	2001 (Unaudited)
NET SALES	\$ 9,859,784	\$10,943,962	\$19,542,251	\$22,403,916
COST OF SALES	<u>8,839,820</u>	<u>8,156,779</u>	<u>17,768,125</u>	<u>17,060,961</u>
GROSS PROFIT	1,019,964	2,787,183	1,774,126	5,342,955
SELLING, GENERAL AND OPERATING INCOME (LOSS)	<u>1,991,280</u>	<u>2,095,696</u>	<u>3,863,973</u>	<u>4,079,834</u>
	<u>(971,316)</u>	<u>691,487</u>	<u>(2,089,847)</u>	<u>1,263,121</u>
OTHER INCOME (EXPENSE):				
Interest income	15,373	21,277	23,625	12,883
Interest expense	(1,411)	(11,740)	(1,515)	(13,346)
Other	<u>2,567</u>	<u>175,090</u>	<u>66,954</u>	<u>179,998</u>
Other income, net	<u>16,529</u>	<u>184,627</u>	<u>89,064</u>	<u>179,535</u>
INCOME (LOSS) BEFORE INCOME TAXES	(954,787)	876,114	(2,000,783)	1,442,656
INCOME TAX EXPENSE (BENEFIT)	<u>(503,855)</u>	<u>351,208</u>	<u>(857,787)</u>	<u>552,924</u>
NET INCOME (LOSS)	<u>\$ (450,932)</u>	<u>\$ 524,906</u>	<u>\$ (1,142,996)</u>	<u>\$ 889,732</u>
NET INCOME (LOSS) PER SHARE OF COMMON STOCK, basic and dilutive - based on weighted average number of shares outstanding of 5,407,300 and 5,624,450 for the six months ended June 30, 2002 and 2001, respectively; and 5,400,489 and 5,634,111 for the three months ended June 30, 2002 and 2001, respectively.	<u>\$ (0.08)</u>	<u>\$ 0.09</u>	<u>\$ (0.21)</u>	<u>\$ 0.16</u>

See notes to the consolidated financial statements

THE KELLER MANUFACTURING COMPANY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2002 AND 2001

	SIX MONTHS ENDED JUNE 30	
	2002	2001
	(Unaudited)	
OPERATING ACTIVITIES:		
Net income (loss)	\$(1,142,996)	\$ 889,732
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	664,200	804,000
Deferred income taxes	(320,214)	182,679
Common stock awards		3,380
Changes in assets and liabilities:		
Accounts receivable	278,664	1,531,075
Inventories	1,595,031	(1,070,342)
Income taxes receivable / payable	940,314	85,233
Other current assets	(266,445)	(45,110)
Prepaid pension costs	295,857	248,278
Accounts payable	99,975	(228,069)
Commissions, salaries, withholdings and accrued vacation	170,526	(441,369)
Allowance for sales returns		(741,959)
Other current liabilities	137,238	(414,769)
Net cash provided by operating activities	2,452,150	802,759
INVESTING ACTIVITIES -		
Purchases of property, plant and equipment	(237,845)	(294,984)
FINANCING ACTIVITIES:		
Net borrowing on line of credit		250,000
Redemption of Common Stock	(132,958)	
Issuance of Common Stock		77,585
Dividends paid	(379,005)	(393,566)
Net cash used in financing activities	(511,963)	(65,981)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,702,342	441,794
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,591,312	406,186
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 4,293,654	\$ 847,980
CASH PAID (REFUNDED) DURING THE YEAR FOR:		
Interest	\$ 1,400	\$ 13,000
Income taxes	\$ (781,000)	\$ 185,000

See notes to the consolidated financial statements

THE KELLER MANUFACTURING COMPANY, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2002 AND 2001 AND DECEMBER 31, 2001

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 in conformity with accounting principles generally accepted in the United States of America. 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 ("SEC"). The results of operations for the six months ended June 30, 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>June 30, 2002</u> (Unaudited)	<u>June 30, 2001</u> (Unaudited)	<u>December 31, 2001</u>
Raw Materials	\$3,726,648	\$6,122,936	\$4,653,468
Work-in-process	5,733,324	10,825,512	6,126,523
Finished Goods	<u>2,771,146</u>	<u>3,697,051</u>	<u>3,046,158</u>
Total	<u>\$12,231,118</u>	<u>\$20,645,499</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 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.

Note 5. Reclassifications

Certain reclassifications have been made to 2001 amounts to conform to the 2002 classifications.

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 section presents an analysis of the consolidated financial condition of the Company as of June 30, 2002, June 30, 2001, and December 31, 2001 and the consolidated results of operations for the three and six month periods ended June 30, 2002 and 2001. This discussion should be read in conjunction with the consolidated financial statements and other financial data presented elsewhere herein and with the financial statements and other financial data, as well as the Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's December 31, 2001 Annual Report to Shareholders.

Results of Operations

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Net Sales	100.0%	100.0%	100.0%	100.0%
Cost of Sales	89.7%	74.5%	90.9%	76.2%
Gross Profit	10.3%	25.5%	9.1%	23.8%
Selling, General & Administrative	20.2%	19.1%	19.8%	18.2%
Operating Income (Loss)	(9.9)%	6.4%	(10.7)%	5.6%
Other Income, Net	*	1.6%	*	*
Income (Loss) Before Income Taxes	(9.7)%	8.0%	(10.2)%	6.4%
Income Tax Expense (Benefit)	(5.1)%	3.2%	(4.4)%	2.4%
Net Income (Loss)	(4.6)%	4.8%	(5.8)%	4.0%

Three Months Ended June 30, 2002, compared to three months ended June 30, 2001

Net Sales. Net sales decreased approximately \$1.0 million to approximately \$9.9 million in the second quarter 2002 compared to approximately \$10.9 million in the second quarter 2001. The approximate 9.9% decrease in net sales resulted primarily from the continued weak economy. Backlog of unshipped orders at June 30, 2002 and 2001 was approximately \$2.3 million and \$1.8 million, respectively.

*Less than 1%

Cost of Sales. Cost of sales as a percentage of net sales increased to 89.7% for the second quarter 2002 from 74.5% for the second quarter 2001. The increase in cost of sales as a percentage of net sales resulted from lower sales volume. During the fourth quarter 2001, the Company recorded an adjustment related to the write-down 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 second quarter of 2001) and accordingly, recorded the adjustment in the fourth quarter of 2001. Actual cost of sales was \$8.8 million and \$8.2 million for the second quarter of 2002 and 2001, respectively.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased by approximately \$0.1 million from approximately \$2.1 million for quarter ended June 30, 2001, to approximately \$2.0 million for quarter ended June 30, 2002. As a percent of net sales, selling, general and administrative expenses increased from 19.1% for the second quarter 2001 to 20.2% for the second quarter 2002. Such increase was primarily due to lower volume of sales for the quarter ended June 30, 2002 as compared to the quarter ended June 30, 2001.

Net Income. As a result of the above factors, there was a net loss for the second quarter of approximately (\$0.5) million in 2002 as compared to approximately \$0.5 million net income for the second quarter 2001.

Six Months Ended June 30, 2002 Compared to Six Months Ended June 30, 2001

Net Sales. Net sales decreased approximately \$2.9 million to approximately \$19.5 million for the first half of 2002 compared to \$22.4 million for the first half of 2001. The approximate 12.8% decrease in net sales primarily resulted from a decrease in orders of approximately 7.3% due to reduced dealer response in a continued weak economy.

Cost of Sales. Cost of sales increased approximately \$0.7 million from approximately \$17.1 million for the first half of 2001 to approximately \$17.8 million for the first half of 2002. As a percent of net sales, cost of sales increased from 76.2% in the first half of 2001 to 90.9% for the first half of 2002. The increase in cost of sales as a percentage of net sales resulted from lower sales volume. During the fourth quarter 2001, the Company recorded an adjustment related to the write-down 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 and second quarters of 2001) and accordingly, recorded the adjustment in the fourth quarter of 2001.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased approximately \$0.2 million from approximately \$4.1 million for the first half of 2001 to approximately \$3.9 million for the first half of 2002. However, as a percent of net sales, selling, general and administrative expenses increased from 18.2% for the first half of 2001 to 19.8% for the first half of 2002. Such increase was primarily the result of the lower sales volume for the first half of 2002 as compared to the first half of 2001.

Net Income. As a result of the above factors, the net loss for the first six months of 2002 was approximately (\$1.1) million. This is approximately \$2.0 million less than 2001's first half net income of approximately \$0.9 million.

Liquidity and Capital Resources. Net working capital decreased from approximately \$25.3 million at June 30, 2001 to approximately \$20.2 million at June 30, 2002. The current ratio decreased slightly from 7.9 at June 30, 2001 to 7.1 at June 30, 2002. Inventory decreased approximately \$8.4 million at June 30, 2002 as compared to June 30, 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 June 30, 2002 as compared to June 30, 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

The Company held its Annual Meeting of Shareholders on April 26, 2002. At the Annual Meeting the shareholders (i) Elected as Directors for an additional three year term the three nominees proposed by the Board of Directors, and (ii) Ratified the Board of Directors selection of Deloitte & Touche LLP to serve as the Company's independent auditors for the year 2002.

	Votes Cast for	Votes Withheld	Broker Non-Votes
Bradford Ray	4,425,971	45,306	0
Danny Utz	4,166,175	305,102	0
Robert Byrd	4,068,999	402,278	0
	Votes Cast for	Votes Cast Against	Abstentions
Deloitte and Touche LLP to serve as independent Auditors for the year 2002	4,232,316	9,607	0

Item 5. Other Information

Dividend Action

The Board of Directors' approved a dividend of \$0.0175 per share of Common Stock for the second quarter 2002 at their July 26, 2002 meeting, for shares owned as of the record date of August 9, 2002, payable on August 19, 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.

Date

BY:

Steven W. Robertson
President and Chief Executive Officer

Date

Danny L. Utz
Vice President, Finance
Principle 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).
- 99.1 CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002.

THE KELLER MANUFACTURING COMPANY, INC.
Form 10-Q

Exhibit 99.1
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Steven W. Robertson, the CEO of The Keller Manufacturing Company, Inc., certify that (i) the 10Q for the period ending June 30, 2002 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the 10Q for the period ending June 30, 2002 fairly presents, in all material respects, the financial condition and results of operations of The Keller Manufacturing Company, Inc..

Signature of CEO

Printed Name of CEO

(Date)

I, Danny Utz, the CFO of The Keller Manufacturing Company, Inc., certify that (i) the 10Q for the period ending June 30, 2002 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in the 10Q for the period ending June 30, 2002 fairly presents, in all material respects, the financial condition and results of operations of The Keller Manufacturing Company, Inc..

Signature of CFO

Printed Name of CFO

(Date)