

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

*Consolidated Unaudited Financial Statements
for the three months and the nine months ending
September 30, 2004 and 2003*

THE KELLER MANUFACTURING COMPANY, INC. AND SUBSIDIARY

**CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2004 AND 2003 AND DECEMBER 31, 2003**

	<u>SEPTEMBER 30,</u> <u>2004</u>	<u>SEPTEMBER 30,</u> <u>2003</u>	<u>DECEMBER 31,</u> <u>2003</u>
	(Unaudited)		
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash	\$ 617,662	\$ 1,010,075	\$ 2,648,818
Investments available for sale	-	3,274,412	2,760,013
Accounts receivable, less allowance for doubtful accounts of \$798,000 at September 30, 2004 , \$836,000 at September 30, 2003 and \$846,000 at December 31, 2003	973,782	3,027,720	1,672,656
Inventories	1,295,921	7,461,092	5,073,080
Deferred tax asset	-	809,998	-
Income taxes refundable	7,421	272,730	1,421
Other current assets	46,885	89,584	95,146
Total Current Assets	2,941,671	15,945,611	12,251,134
PROPERTY, PLANT AND EQUIPMENT - net	211,242	4,837,107	4,740,884
OTHER ASSETS:			
Net assets available for sale	1,663,362	508,031	371,163
Deferred tax asset	-	86,696	-
Total Other Assets	1,663,362	594,727	371,163
TOTAL ASSETS	\$ 4,816,275	\$ 21,377,445	\$ 17,363,181
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>			
CURRENT LIABILITIES:			
Accounts payable	\$ 978,467	\$ 574,931	\$ 1,465,447
Accrued commissions, salaries & withholdings	214,778	542,811	193,702
Accrued vacation	200,886	461,848	393,746
Accrued pension liability	-	450,647	-
Allowance for sales returns	460,931	380,000	480,270
Accrued health, life & workers comp. insurance	666,251	739,536	561,907
Accrued property taxes	126,913	272,803	180,000
Other current liabilities	302,836	227,391	313,715
Total Current Liabilities	2,951,062	3,649,967	3,588,787
LONG-TERM LIABILITIES:			
Accrued pension liability	1,740,415	1,426,622	1,655,415
Deferred income taxes	-	85,352	-
Other long-term liabilities	38,580	38,580	38,580
Total Long-Term Liabilities	1,778,995	1,550,554	1,693,995
TOTAL LIABILITIES	4,730,057	5,200,521	5,282,782
STOCKHOLDERS' EQUITY:			
Common stock - no par value, authorized 40,000,000 shares, issued and outstanding 4,870,224 (September 30, 2004), 5,177,400 (September 30, 2003) and 5,177,800 (December 31, 2003).	439,523	1,670,207	1,671,317
Deferred stock compensation	213,161	24,164	73,163
Accumulated other comprehensive loss	(1,655,263)	(1,874,914)	(1,650,088)
Retained earnings	1,088,797	16,357,467	11,986,007
Total Stockholders' Equity	86,218	16,176,924	12,080,399
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 4,816,275	\$ 21,377,445	\$ 17,363,181

THE KELLER MANUFACTURING COMPANY, INC. AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS AND THE NINE MONTHS ENDING SEPTEMBER 30, 2004 AND 2003**

	THREE MONTHS ENDING SEPTEMBER 30,		NINE MONTHS ENDING SEPTEMBER 30,	
	<u>2004</u> (Unaudited)	<u>2003</u> (Unaudited)	<u>2004</u> (Unaudited)	<u>2003</u> (Unaudited)
NET SALES	\$ 2,169,907	\$ 5,014,462	\$ 9,413,429	\$ 17,697,230
COST OF SALES	<u>4,250,342</u>	<u>5,870,516</u>	<u>14,854,980</u>	<u>18,200,724</u>
GROSS PROFIT (LOSS)	(2,080,435)	(856,054)	(5,441,551)	(503,494)
SELLING, GENERAL AND ADMINISTRATIVE	1,084,198	1,762,538	3,850,950	4,301,482
IMPAIRMENT OF FIXED ASSETS	<u>1,876,827</u>	<u>2,850,129</u>	<u>1,876,827</u>	<u>2,850,129</u>
OPERATING LOSS	(5,041,460)	(5,468,721)	(11,169,328)	(7,655,105)
OTHER INCOME (EXPENSE):				
Interest income	7,853	17,469	47,115	39,470
Interest expense	(271)	(27)	(1,342)	(5,377)
Loss on sales of fixed assets	(278,408)	(391,684)	267,453	(420,833)
Other income (expense)	<u>(21,153)</u>	<u>(85,668)</u>	<u>(41,110)</u>	<u>(240,987)</u>
Total Other Income (Expense), net	(291,979)	(459,910)	272,116	(627,727)
LOSS BEFORE INCOME TAXES	(5,333,439)	(5,928,631)	(10,897,212)	(8,282,832)
INCOME TAX PROVISION (BENEFIT)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(155,880)</u>
NET LOSS	\$ (5,333,439)	\$ (5,928,631)	\$ (10,897,212)	\$ (8,126,952)

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

Based on weighted average number of shares outstanding of 4,979,677 and 5,240,751 for the nine months ending September 30, 2004 and 2003, respectively; and 4,870,224 and 5,177,400 for the three months ending September 30, 2004 and 2003 respectively.

\$ (1.10)	\$ (1.15)	\$ (2.19)	\$ (1.55)
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THE KELLER MANUFACTURING COMPANY, INC. AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS AND THE NINE MONTHS ENDING SEPTEMBER 30, 2004 AND 2003**

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
	(Unaudited)		(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net Loss	\$ (5,333,439)	\$ (5,928,631)	\$ (10,897,212)	\$ (8,126,952)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Depreciation	125,890	264,232	585,890	838,800
(Gain) Loss on fixed asset disposals	278,408	391,684	(267,453)	420,833
Loss from impairment of fixed assets	1,876,827	2,790,129	1,876,827	2,850,129
Bad debt expense	-	413,313	-	257,433
Deferred income taxes	-	(155,880)	-	(155,880)
Inventory reserve	874,646	336,150	2,043,582	336,150
Compensation for stock options granted	42,000	24,164	139,998	24,164
Changes in Assets and Liabilities				
Accounts receivable	473,096	(156,137)	698,874	522,664
Inventory	138,553	861,585	1,733,577	1,991,706
Income taxes refundable / payable	-	2,730	(6,000)	2,028,909
Other current assets	68,512	109,559	48,261	93,193
Prepaid pension costs / accrued pension liability	20,000	(38,055)	145,422	87,367
Accounts payable	(303,006)	192,670	(486,980)	(85,234)
Accrued commissions, salaries & withholdings & accrued vacation	61,212	67,995	13,092	19,875
Allowance for sales returns	(258)	76,258	(44,497)	32,019
Restructuring reserve	-	-	(242,299)	(242,299)
Accrued health, life & workers compensation insurance	66,369	38,863	(49,843)	(77,349)
Accrued property taxes	(53,087)	(158,096)	98,543	(6,466)
Other liabilities	(113,011)	140,170	41,337	(170,102)
Total Adjustments	3,556,151	5,201,334	6,328,331	8,765,912
Net Cash Provided By (Used In) Operating Activities	(1,777,288)	(727,297)	(4,568,881)	638,960
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property, plant & equipment	(10,625)	(60,031)	(742,060)	(303,395)
Proceeds from sales of property, plant & equipment	180,770	-	1,756,741	-
Purchases of investments available for sale	-	501,897	-	(2,020,975)
Proceeds from disposal of investments available for sale	250,001	-	2,754,838	-
Net Cash Provided By (Used In) Investing Activities	420,146	441,866	3,769,519	(2,324,370)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Redemptions of common stock	-	-	(1,231,794)	(291,752)
Issuance of common stock	-	-	-	-
Dividends paid	-	-	-	(184,997)
Net Cash Used In Financing Activities	-	-	(1,231,794)	(476,749)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,357,142)	(285,431)	(2,031,156)	(2,162,159)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,974,804	1,295,506	2,648,818	3,172,234
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 617,662	\$ 1,010,075	\$ 617,662	\$ 1,010,075

THE KELLER MANUFACTURING COMPANY, INC.
SELECTED QUARTERLY DATA

	1st Quarter <u>2001</u>	2nd Quarter <u>2001</u>	3rd Quarter <u>2001</u>	4th Quarter <u>2001</u>	1st Quarter <u>2002</u>	2nd Quarter <u>2002</u>	3rd Quarter <u>2002</u>	4th Quarter <u>2002</u>
Net Sales	11,459,954	10,943,962	11,674,459	9,284,689	9,682,467	9,859,784	8,302,862	8,023,775
% Increase (Decrease) From Previous Qtr	-9.2%	-4.5%	6.7%	-20.5%	4.3%	1.8%	-15.8%	-3.4%
Operating Income (Loss)	560,892	876,114	1,020,678	(6,060,659)	(1,118,531)	(971,316)	(1,273,361)	(3,527,572)
% Increase (Decrease) From Previous Qtr	202.1%	56.2%	16.5%	-693.8%	-81.5%	-13.2%	31.1%	177.0%
Total Stockholders' Equity	35,656,865	35,984,574	35,921,334	31,794,867	30,913,299	30,139,908	29,190,568	24,756,461
% Increase (Decrease) From Previous Qtr	0.7%	0.9%	-0.2%	-11.5%	-2.8%	-2.5%	-3.1%	-15.2%
Chestnut Creek Product Group	5,316,170	5,227,193	5,593,275	4,132,021	4,136,222	4,083,547	3,127,195	3,362,592
% Increase (Decrease) From Previous Qtr	-27.3%	-1.7%	7.0%	-26.1%	0.1%	-1.3%	-23.4%	7.5%
Transitions Product Group	1,509,599	1,916,621	2,245,385	2,508,102	2,575,775	2,856,594	1,701,780	2,027,308
% Increase (Decrease) From Previous Qtr	100.0%	27.0%	17.2%	11.7%	2.7%	10.9%	-40.4%	19.1%

THE KELLER MANUFACTURING COMPANY, INC.
SELECTED QUARTERLY DATA

	<u>1st Quarter</u> <u>2003</u>	<u>2nd Quarter</u> <u>2003</u>	<u>3rd Quarter</u> <u>2003</u>	<u>4th Quarter</u> <u>2003</u>	<u>1st Quarter</u> <u>2004</u>	<u>2nd Quarter</u> <u>2004</u>	<u>3rd Quarter</u> <u>2004</u>
Net Sales	7,837,469	4,845,299	5,014,462	3,797,686	4,140,655	3,102,867	2,169,907
% Increase (Decrease) From Previous Qtr	-2.3%	-38.2%	3.5%	-24.3%	9.0%	-25.1%	-30.1%
Operating Income (Loss)	(513,933)	(1,672,451)	(5,468,721)	(5,399,797)	(2,113,610)	(4,014,258)	(5,041,460)
% Increase (Decrease) From Previous Qtr	-85.4%	225.4%	227.0%	-1.3%	-60.9%	89.9%	25.6%
Total Stockholders' Equity	24,246,993	22,081,391	16,176,924	12,080,399	10,568,847	5,377,814	86,218
% Increase (Decrease) From Previous Qtr	-2.1%	-8.9%	-26.7%	-25.3%	-12.5%	-49.1%	-98.4%
Chestnut Creek Product Group	2,910,645	2,296,411	1,968,424	1,519,222	1,103,832	730,326	513,600
% Increase (Decrease) From Previous Qtr	-13.4%	-21.1%	-14.3%	-22.8%	-27.3%	-33.8%	-29.7%
Transitions Product Group	2,073,508	1,276,607	1,191,079	935,706	759,488	499,128	388,599
% Increase (Decrease) From Previous Qtr	2.3%	-38.4%	-6.7%	-21.4%	-18.8%	-34.3%	-22.1%