

# Shareholder Letter

June 16, 2008



The Keller Manufacturing Company, Inc.

P.O. Box 9395, Louisville, KY 40209

[www.kellermanufacturing.com](http://www.kellermanufacturing.com)

The purpose of this shareholder letter is to provide an update on what has happened at Keller since our last shareholder letter dated December 26, 2007, to provide 2007 audited financial statements, and to provide unaudited financial statements for the first quarter of 2008. We have posted this letter, other shareholder letters, press releases, and financial statements on our web site ([www.kellermanufacturing.com](http://www.kellermanufacturing.com)) for your reference.

Keller's major asset remains its 84% equity interest in Louisville based Paragon Door Designs, Inc. ("Paragon"). Founded in 1993, Paragon manufactures entryway products, custom steel and fiberglass residential entry doors and storm doors, with a variety of glass styles and finishes. Paragon sells through a network of window and door dealers, remodelers, and home improvement companies in more than 20 states. Paragon has 34 employees and has been profitable for many years. Paragon founder, President and CEO David N. Burks, an industry veteran with over 26 years of experience, owns all of the issued and outstanding shares of stock of Paragon not otherwise owned by Keller. For more information about the products offered by Paragon, please visit [www.paragondoor.com](http://www.paragondoor.com).

As reported in the last shareholder letter dated December 26, 2007, Keller entered into a settlement agreement with the Pension Benefit Guaranty Corporation ("PBGC") settling all liabilities of Keller and its subsidiary, Paragon, with respect to its Employee's Pension Plan. The agreement called for a settlement payment in the sum of \$400,000 (i.e. a settlement of approximately 8.7 cents of payment for every dollar owed to the PBGC). Both Keller and Paragon (as Keller's subsidiary) were parties to this agreement. The \$400,000 payment was made to the PBGC on December 26, 2007. To fund this payment, Keller arranged for a loan in that amount. To obtain the loan several Keller shareholders and directors were asked to and agreed to guarantee the loan. The loan will be paid by the distribution of dividend income of Paragon to Keller as dividends are made to all Paragon shareholders. Those individuals guaranteeing this loan will receive stock warrants annually to which they can purchase shares of Keller's common stock for \$.01 per share, commensurate with their guarantee. It should be noted that the guarantees of these individuals on the credit facility of Paragon (as reported in prior shareholder letters) were released from the Paragon loan simultaneously with execution of Keller's \$400,000 loan. The warrants, in the aggregate, are exercisable into shares of Keller's common stock at any time during the next 10 years and are fully vested. During 2007, 45,000 of these warrants were exercised increasing total outstanding shares from 4,920,224 to 4,965,224. Keller also has additional unexercised warrants outstanding, as disclosed in the footnotes to the 2007 audited financial statements.

The 2007 audited financials reveal \$77,331 in operating income and a gain in shareholder's equity from a deficit in 2006 of (\$3,349,544) to shareholders equity of \$1,170,054 in 2007. This was Keller's first year to recognize operating income since 2000 and first year to return to positive shareholder's equity since 2003. For 2007, Keller reported a net loss of (\$1,167,729) and comprehensive income of \$4,507,448. Keller's operating income was the result of the continued growth and performance of Keller's operational subsidiary, Paragon Door Designs. The comprehensive income and significant increase in shareholder's equity was the result of the settlement Keller reached with the PBGC. Keller's 2008 first quarter unaudited financials show a net loss of (\$128,231). The loss resulted primarily from the seasonal cycles in the remodeling industry and the general slowness of the economy.

In February 2008 Keller's subsidiary, Paragon Door Designs, acquired the storm door manufacturing assets of Medlin Custom Woodworking, Inc. This acquisition added storm door manufacturing to Paragon's other manufacturing operations in Louisville, Kentucky. The total purchase price of the storm door manufacturing assets was just less than \$100,000. Previously Paragon marketed and distributed storm doors under its brand name through agreements with various manufacturers. With this acquisition, Paragon will be able to control manufacturing processes and costs associated with the storm door product. Paragon's product offerings consist of custom steel and fiberglass residential entry doors and storm doors marketed as coordinated entryway systems.

In June 2008 Keller's subsidiary, Paragon Door Designs, acquired exclusive rights to the Radiance Entry Systems product line, customer base and order stream of J.J. Moore Sales, Inc. of Erie, PA. The purchase price is based on an earn-out agreement over a two year period. The Radiance Entry Systems products will be manufactured at the Paragon facility in Louisville, KY. A distribution and customer service center will be maintained in Erie, PA to service the current Radiance delivery area. This acquisition gives Paragon a larger footprint in the northeastern portion of the country, as well as a highly regarded brand, in Radiance Entry Systems, to add to its product lines.

The members of the Keller Board of Directors do not receive any compensation for their services. At this time, Keller has no employees and no remaining compensation obligations to former employees. All of Keller's office and warehouse leases have terminated. Keller maintains its corporate offices at the offices of its subsidiary, Paragon Door Designs.

Keller looks forward to benefiting from its unused net operating loss carry forwards which are in excess of \$22,000,000.

Shareholders should anticipate that moving forward there will only be mailings for annual audit results and notice of Shareholder meeting. Quarterly results will be posted on the website.

In light of all that is herein reported, Keller shareholders should not anticipate any dividend distributions in the near future term.

Keller shares trade on the Pink Sheets over-the-counter market under the symbol "KMFI" or "KMFI.pk". Shares can be bought or sold by contacting a licensed broker dealer since there are several market makers for Keller shares.

Sincerely,  
Ronald W. Humin  
Chairman of the Board of Directors  
The Keller Manufacturing Company, Inc.

**Strothman & Company P S C**

Certified Public Accountants & Advisors



---

Consolidated Financial Statements,  
and Consolidating Information

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

December 31, 2007 and 2006

Consolidated Financial Statements  
and Consolidating Information

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

December 31, 2007 and 2006

<b>Independent Auditors' Report</b> .....	1
<b>Financial Statements</b>	
Consolidated Balance Sheets .....	2
Consolidated Statements of Operations and Other Comprehensive Income (Loss) .....	3
Consolidated Statements of Changes in Stockholders' Equity (Deficit) .....	4
Consolidated Statements of Cash Flows .....	5
Notes to Consolidated Financial Statements .....	6
<b>Consolidating Information</b>	
Independent Auditors' Report on Consolidating Information .....	16
Consolidating Balance Sheet .....	17
Consolidating Statement of Operations and Other Comprehensive Income .....	19

## Independent Auditors' Report



Board of Directors  
The Keller Manufacturing Company, Inc. and Subsidiary  
Louisville, Kentucky

We have audited the accompanying consolidated balance sheets of The Keller Manufacturing Company, Inc. and Subsidiary (the "Company") as of December 31, 2007 and 2006 and the related consolidated statements of operations and other comprehensive income (loss), changes in stockholders' equity (deficit) and cash flows for the years then ended. 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 auditing standards generally accepted in the United States of America. 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 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 the Company as of December 31, 2007 and 2006, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*STROTSMAN & COMPANY PSC*

Louisville, Kentucky  
February 25, 2008

Consolidated Balance Sheets

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

	December 31	
	2007	2006
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 12,697	\$ 40,937
Accounts receivable, less allowance for doubtful accounts of \$48,000 each year	634,673	486,645
Inventories	434,887	433,506
Prepaid expenses and other	68,523	71,357
Deferred income taxes	35,000	-
<b>Total Current Assets</b>	1,185,780	1,032,445
<b>Property and Equipment, net</b>	196,552	109,097
<b>Deferred Income Taxes</b>	215,000	-
<b>Goodwill</b>	703,444	703,444
<b>Total Assets</b>	<u>\$ 2,300,776</u>	<u>\$ 1,844,986</u>
<b>Liabilities and Stockholders' Equity (Deficit)</b>		
<b>Current Liabilities</b>		
Checks issued in excess of deposits	\$ 79,906	
Line of credit	176,010	\$ 198,000
Accounts payable	150,917	184,798
Accrued expenses	312,902	224,076
Current maturities of note payable	28,854	-
<b>Total Current Liabilities</b>	748,589	606,874
<b>Accrued Pension Liability</b>		4,587,656
<b>Note Payable</b> , less current portion	373,146	-
<b>Total Liabilities</b>	1,121,735	5,194,530
<b>Minority Interest</b>	8,987	-
<b>Stockholders' Equity (Deficit)</b>		
Common Stock, no par value, 40,000,000 shares authorized, 4,965,224 and 4,920,224, respectively, shares issued and outstanding	462,973	450,823
Additional paid-in capital	29,190	29,190
Retained earnings	677,891	1,845,620
Accumulated other comprehensive loss	-	(5,675,177)
<b>Total Stockholders' Equity (Deficit)</b>	1,170,054	(3,349,544)
<b>Total Liabilities and Stockholders' Equity (Deficit)</b>	<u>\$ 2,300,776</u>	<u>\$ 1,844,986</u>

See Notes to Consolidated Financial Statements

Consolidated Statements of Operations and Other Comprehensive Income (Loss)

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

	<b>Year Ended December 31</b>	
	<b>2007</b>	<b>2006</b>
<b>Net Sales</b>	\$ 4,729,716	\$ 4,329,208
<b>Cost of Goods Sold</b>	<u>3,435,591</u>	<u>3,114,899</u>
<b>Gross Profit</b>	1,294,125	1,214,309
<b>Selling, General and Administrative Expenses</b>	<u>1,216,794</u>	<u>1,230,700</u>
<b>Operating Income (Loss)</b>	77,331	(16,391)
<b>Effect of Pension Plan Termination</b>	(1,487,521)	-
<b>Other Income (Expense), Net</b>	<u>15,047</u>	<u>(10,630)</u>
<b>Net Loss Before Income Taxes</b>	(1,395,143)	(27,021)
<b>Income Tax Benefit (Expense)</b>	<u>250,000</u>	<u>(4,272)</u>
<b>Net Loss Before Minority Interest</b>	(1,145,143)	(31,293)
<b>Minority Interest in Income of Consolidated Subsidiary</b>	<u>(22,586)</u>	<u>-</u>
<b>Net Loss</b>	(1,167,729)	(31,293)
<b>Effect of Pension Plan Termination</b>	5,675,177	
<b>Additional Pension Liability Adjustment</b>	<u>-</u>	<u>(266,420)</u>
<b>Total Other Comprehensive Income (Loss)</b>	<u>\$ 4,507,448</u>	<u>\$ (297,713)</u>

See Notes to Consolidated Financial Statements

Consolidated Statements of Changes in Stockholders' Equity (Deficit)

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

Years Ended December 31, 2007 and 2006

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total Stockholders' Equity (Deficit)</u>
	<u>Outstanding Shares</u>	<u>Amount</u>				
<b>Balances at January 1, 2006</b>	4,870,224	\$ 439,523	\$ 510,519	\$ 1,876,913	\$ (5,408,757)	\$ (2,581,802)
Net loss				(31,293)		(31,293)
Other comprehensive loss:						
Additional pension liability					(266,420)	(266,420)
Stock options forfeited			(510,519)			(510,519)
Stock options and warrants issued			39,990			39,990
Stock issuance	<u>50,000</u>	<u>11,300</u>	<u>(10,800)</u>			<u>500</u>
<b>Balances at December 31, 2006</b>	4,920,224	450,823	29,190	1,845,620	(5,675,177)	(3,349,544)
Net loss				(1,167,729)		(1,167,729)
Other comprehensive loss:						
Settlement of pension liability					5,675,177	5,675,177
Warrants issued			11,700			11,700
Stock issuance	<u>45,000</u>	<u>12,150</u>	<u>(11,700)</u>			<u>450</u>
<b>Balances at December 31, 2007</b>	<u>4,965,224</u>	<u>\$ 462,973</u>	<u>\$ 29,190</u>	<u>\$ 677,891</u>	<u>\$</u>	<u>\$ 1,170,054</u>

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

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

	<b>Year Ended December 31</b>	
	<b>2007</b>	<b>2006</b>
<b>Operating Activities</b>		
Net loss	\$ (1,167,729)	\$ (31,293)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation and amortization	42,365	54,695
Effect of pension plan termination	1,487,521	-
Deferred income tax benefit	(250,000)	-
Allowance for doubtful accounts	-	48,000
Noncash stock option compensation	11,700	(481,329)
Change in minority interest	8,987	-
Changes in certain operating assets and liabilities		
Accounts receivable	(148,028)	(181,289)
Inventories	(1,381)	(1,381)
Prepaid expenses and other assets	2,834	27,939
Accrued pension liability	(400,000)	363,868
Checks issued in excess of deposits	79,906	-
Accounts payable	(33,881)	87,232
Accrued expenses	88,826	131,067
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>(278,880)</b>	<b>17,509</b>
<b>Investing Activities</b>		
Cash paid for acquisition of subsidiary, net of cash acquired	-	(412,731)
Purchase of equipment	(129,820)	(31,248)
<b>Net Cash Used In Investing Activities</b>	<b>(129,820)</b>	<b>(443,979)</b>
<b>Financing Activities</b>		
Issuance of common stock	450	11,300
Repayment of debt	-	(380,000)
Repayment of related party note	-	(757,200)
Net borrowings under line of credit agreement	(21,990)	198,000
Proceeds from long-term note payable	402,000	-
<b>Net Cash Provided By (Used In) Financing Activities</b>	<b>380,460</b>	<b>(927,900)</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(28,240)</b>	<b>(1,354,370)</b>
<b>Cash and Cash Equivalents Beginning of Year</b>	<b>40,937</b>	<b>1,395,307</b>
<b>Cash and Cash Equivalents End of Year</b>	<b>\$ 12,697</b>	<b>\$ 40,937</b>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid for interest	\$ 21,117	\$ 32,535

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

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

December 31, 2007 and 2006

**Note A--Basis of Presentation and Nature of Business**

The consolidated financial statements include the accounts of The Keller Manufacturing Company, Inc. and its subsidiary, Paragon Door Designs, Inc. ("Paragon") (collectively referred to as the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

The Company manufactures custom entry doors and distributes storm doors for residential use. The Company primarily serves independent retailers and distributors located predominantly in the midwest and northeast United States.

**Note B--Summary of Significant Accounting Policies**

Cash and Cash Equivalents--Cash and cash equivalents are defined as cash in banks and investment instruments having maturities of three months or less from their acquisition date. The Company maintains its cash in commercial bank accounts. These cash accounts are insured by the Federal Deposit Insurance Corporation up to \$100,000. The Company has approximately \$313,000 of cash in excess of insured amounts at December 31, 2007. At December 31, 2006, the Company did not have any cash in excess of insured amounts.

Accounts Receivable--The Company allows for estimated losses on accounts receivable based on prior bad debt experience and a review of existing receivables. Uncollectible accounts receivable are charged against the allowance account as realized.

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

Property and Equipment--Property and equipment are recorded at cost. Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method.

Impairment of Property and Equipment--In accordance with the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Company performs a review for impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss would be recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposal are less than its carrying amount.

Goodwill--The Company has classified as goodwill the excess of the purchase price of Paragon over the fair value of identifiable net assets acquired (see Note C). On an annual basis, the Company evaluates goodwill for any impairment and adjusts it to reflect any impairment losses. No such adjustment was required for 2007 or 2006.

Continued

Notes to Consolidated Financial Statements--Continued

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

December 31, 2007 and 2006

**Note C--Acquisition--Continued**

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Current assets	\$ 742,000
Property and equipment	109,000
Goodwill	<u>703,000</u>
<b>Total Assets Acquired</b>	1,554,000
Current liabilities	483,000
Noncurrent liabilities	<u>651,000</u>
<b>Total Liabilities Assumed</b>	<u>1,134,000</u>
<b>Net Assets Acquired</b>	<u><u>\$ 420,000</u></u>

**Note D--Inventories**

Inventories consist of the following at December 31:

	<u>2007</u>	<u>2006</u>
Raw materials	\$ 419,105	\$ 425,820
Finished goods	<u>15,782</u>	<u>7,686</u>
	<u><u>\$ 434,887</u></u>	<u><u>\$ 433,506</u></u>

Notes to Consolidated Financial Statements--Continued

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

December 31, 2007 and 2006

**Note E--Property and Equipment**

Property and equipment consists of the following at December 31:

	<u>2007</u>	<u>2006</u>
Machinery and equipment	\$ 165,807	\$ 131,039
Furniture and fixtures	10,428	10,428
Software	92,880	
Leasehold improvements	<u>19,855</u>	<u>17,683</u>
	288,970	159,150
Less accumulated depreciation and amortization	<u>92,418</u>	<u>50,053</u>
<b>Property and Equipment, Net</b>	<u><u>\$ 196,552</u></u>	<u><u>\$ 109,097</u></u>

**Note F--Line of Credit**

The Company maintains a revolving line of credit with a bank whereby the Company may borrow up to \$450,000, of which \$176,000 and \$198,000 was outstanding as of December 31, 2007 and 2006, respectively. Interest is payable monthly at the prime rate (7.5% at December 31, 2007). The borrowing agreement contains certain restrictive covenants, including financial covenants, such as the maintenance of certain financial ratios. At December 31, 2007, the Corporation was not in compliance with one of these covenants, but has received a waiver from the bank. The line of credit is collateralized by the Company's inventory, accounts receivable and equipment. The borrowing agreement expires on May 12, 2008.

**Note G--Note Payable**

The Company's note payable consists of the following at December 31, 2007:

Note payable to Old National Bank in 19 quarterly installments of \$14,057, with one final payment of \$249,575 at December 2012, including interest at 6.9%	\$ 402,000
Less current maturities	<u>28,854</u>
	<u><u>\$ 373,146</u></u>

Continued

Notes to Consolidated Financial Statements--Continued

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

December 31, 2007 and 2006

**Note G--Note Payable--Continued**

The note payable described above is collateralized by substantially all assets owned by the Company. Additionally, certain stockholders of the Company have personally guaranteed the loan. The loan agreement contains a subjective acceleration clause which allows the bank to demand payment of the note if the bank determines that a material adverse change has occurred to the Company, or the bank deems itself insecure. The Company is in good standing with the Bank. The Bank has not demanded payment under the subjective acceleration clause.

Future maturities of the note payable is as follows:

<u>Year Ending December 31</u>	
2008	\$ 28,854
2009	30,927
2010	33,148
2011	35,528
2012	<u>273,543</u>
	<u><u>\$ 402,000</u></u>

**Note H--Income Taxes**

The components of deferred tax assets and liabilities are as follows:

	<u>December 31 2007</u>	
Deferred tax current assets:		
Accruals	\$ 40,000	
Other	<u>(5,000)</u>	
<b>Net Deferred Tax Current Assets</b>	<u><u>\$ 35,000</u></u>	
	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Deferred tax noncurrent assets:		
Pension costs		\$ 1,762,000
Net operating loss carryforwards	\$ 8,758,000	8,323,000
Other	<u>65,000</u>	<u>56,000</u>
	8,823,000	10,141,000
Less valuation allowance	<u>(8,608,000)</u>	<u>(10,141,000)</u>
<b>Net Deferred Tax Long-Term Assets</b>	<u><u>\$ 215,000</u></u>	<u><u>\$ -</u></u>

Continued

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

December 31, 2007 and 2006

**Note H--Income Taxes**

The Company has net operating loss carryforwards of approximately \$22 million, of which the majority will expire in 2023 through 2025.

Previously, management had recorded a valuation allowance for the entire amount of net deferred tax assets arising from net operating loss carryforwards and other items. With the settlement of the pension plan liability during 2007 (see Note I), management has determined that it is appropriate to reduce the valuation allowance by \$250,000 in anticipating of the future use of a portion of the net operating loss carryforwards.

**Note I--Retirement Plans**

Defined Benefit Pension Plan

The Company had a defined benefit pension plan that provided benefits to certain former employees. Because it was concerned that it would not be able to fund future required contributions to the plan, in April 2006, the Company filed a distress termination application with the Pension Benefit Guaranty Corporation ("PBGC"). As a result of the termination proceedings, a settlement agreement was reached with the PBGC in December 2007 whereby the Company was required to pay \$400,000 for complete satisfaction of their liabilities in connection with the plan.

Because of the termination described above, the following disclosures are presented only for the year ended December 31, 2006.

Changes in benefit obligations and plan assets, as well as the funded status of the plan were as follows for the year ended December 31, 2006:

Change in benefit obligation:	
Benefit obligation at beginning of year	\$ 13,220,798
Interest cost	702,713
Benefits paid	(842,274)
Actuarial loss	<u>620,205</u>
<b>Benefit Obligation at End of Year</b>	<b><u>\$ 13,701,442</u></b>

Continued

Notes to Consolidated Financial Statements--Continued

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

December 31, 2007 and 2006

**Note I--Retirement Plans--Continued**

Change in plan assets:	
Fair value of plan assets at beginning of year	\$ 9,263,430
Actual return on plan assets	692,630
Employer contributions	
Benefits paid	<u>(842,274)</u>
 Fair value of plan assets at end of year	 <u>\$ 9,113,786</u>
 Funded status	 \$ (4,587,656)
Unrecognized net actuarial loss	<u>5,675,177</u>
 Net amount recognized	 <u>\$ 1,087,521</u>
 Amounts recognized in the balance sheet consist of:	
Accrued pension liability	\$ (4,587,656)
Accumulated other comprehensive loss	<u>5,675,177</u>
 Net amount recognized	 <u>\$ 1,087,521</u>

The following weighted-average assumptions were used to determine the Company's obligations under the plan for the year ended December 31, 2006:

Discount rate	5.58%
Expected return on plan assets	7.50%

The components of net pension expense are as follows:

Interest cost on projected benefit obligation	\$ 702,713
Expected return on plan assets	(661,443)
Net amortization and deferral	<u>322,598</u>
 <b>Net Pension Expense</b>	 <b><u>\$ 363,868</u></b>

Weighted-average assets allocations by asset category were as follows:

Equity securities	50%
Debt securities	46%
Other	<u>4%</u>
 Total	 <u>100%</u>

Continued

Notes to Consolidated Financial Statements--Continued

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

December 31, 2007 and 2006

**Note I--Retirement Plans--Continued**

Estimated future benefit obligations were as follows:

<u>Year Ending December 31</u>	
2007	\$ 822,021
2008	808,421
2009	796,124
2010	782,989
2011	778,583
Years 2012 through 2016	3,716,585

The above amounts were determined by the Company's actuary.

Defined Contribution Savings Plans

Paragon has a profit sharing plan which covers employees who have completed one year of service. Company contributions are determined annually at the discretion of the Company. The Company contributed approximately \$57,000 and \$43,000 for the years ended December 31, 2007 and 2006, respectively.

The Keller Manufacturing, Inc. 401(k) Savings Plan was terminated during 2006.

**Note J--Stock Options and Warrants**

In August 2003, the Board of Directors approved The Keller Manufacturing Company, Inc. Amended and Restated 2003 Stock Option Plan. Under the terms of the plan, the Company is authorized to grant options of common shares to certain key management employees. In addition, warrants were issued in connection with the guarantee of the line of credit during 2006. Warrants were also issued in connection with the guarantee of the note payable during 2007. For 2007 and 2006, the Company recorded approximately \$11,700 and \$209,000, respectively, of deferred stock compensation expense with a credit to stockholders' equity (deficit). This amount represents the fair value of stock options and warrants earned during the year.

Continued

Notes to Consolidated Financial Statements--Continued

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

December 31, 2007 and 2006

**Note J--Stock Options and Warrants--Continued**

The following is a summary of the option and warrant transactions under the plan:

	<u>Shares</u>	<u>Weighted Average Exercise Price Per Share</u>
Balance at December 31, 2005	445,000	\$ 0.70
Granted	306,000	0.23
Exercised	(50,000)	0.01
Cancelled	<u>(236,250)</u>	0.70
Balance at December 31, 2006	464,750	0.70
Granted	45,000	0.01
Exercised	<u>(45,000)</u>	0.01
Balance at December 31, 2007	<u>464,750</u>	0.23

The Black-Scholes option pricing model was used to estimate fair value of the options/warrants as of the date of grant, using the following assumptions:

Weighted average fair value of options/warrants granted	\$ 0.01
Dividend yield	-
Risk free interest rate	5.00%
Volatility	32.00%
Expected option term (years)	2

**Note K--Lease Commitments**

The Company has entered into various operating leases including warehouse/production space, truck, and copier lease agreements. Total lease expense was approximately \$140,000 and \$129,000 for 2007 and 2006, respectively.

Continued

Notes to Consolidated Financial Statements--Continued

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

December 31, 2007 and 2006

**Note K--Lease Commitments--Continued**

Approximate future minimum lease payments under these operating leases are as follows:

2008	\$	90,000
2009		27,000
2010		5,000
2011		<u>2,000</u>
<b>Total Minimum Lease Payments</b>	<b>\$</b>	<b><u>124,000</u></b>

**Note L--Contingencies**

The Company is subject to various legal actions arising in the normal course of business. Based on the advice of legal counsel, management does not believe there will be any material adverse effect of the financial position of the Company as a result of any legal actions.

**Note M--Subsequent Event**

Subsequent to December 31, 2007, the Company entered into an agreement to purchase certain assets of another company for approximately \$95,000.

## **Consolidating Information**

Notes to Consolidated Financial Statements--Continued

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

December 31, 2007 and 2006

**Note B--Summary of Significant Accounting Policies--Continued**

Stock-Based Compensation--The Company has a stock-based compensation plan, which is described more fully in Note J. The Company measures compensation expense using the intrinsic-value-based method. Under the intrinsic-value-based method of accounting for stock option plans, compensation cost is the excess, if any, of the quoted market price of the stock at the grant date over the amount an employee must pay to acquire the stock.

Revenue Recognition--Sales are recorded when goods are shipped. The Company provides for estimated customer returns and allowances by reducing sales in the period of the sale.

Shipping Costs--Shipping costs, billed to customers as revenue, are included in the cost of goods sold.

Advertising--The Company expenses advertising costs as they are incurred. Advertising and promotion expense for 2007 and 2006 was \$67,866 and \$70,291, respectively.

Income Taxes--The Company follows the provisions of SFAS No. 109, *Accounting for Income Taxes*, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the consolidated financial statements or income tax return. A valuation allowance is recorded if management believes future deferred tax assets may not be realized.

Estimates--The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make assumptions regarding estimates 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 those estimates.

Reclassifications--Certain amounts in the 2006 consolidated financial statements have been reclassified to conform to the 2007 presentation.

**Note C--Acquisition**

Effective January 1, 2006, the Company bought approximately 85% of the Common Stock of a Louisville, Kentucky based door manufacturing company, Paragon Door Designs, Inc. The Company paid \$420,000 for the Common Stock and also contributed \$720,000 to Paragon, which was used to pay off notes payable to stockholders. All remaining shares of Paragon are owned by its President and Founder.

In connection with the financing of this acquisition, certain Company and Paragon stockholders guaranteed bank debt of Paragon. In exchange, they received warrants to purchase 60,000 shares of the Company's stock at one cent per share. The results of Paragon's operations have been included in the consolidated financial statements since that date.

Continued

### Independent Auditors' Report on Consolidating Information



Board of Directors  
The Keller Manufacturing Company, Inc. and Subsidiary  
Louisville, Kentucky

Our report on our audit of the 2007 consolidated financial statements of The Keller Manufacturing Company, Inc. and Subsidiary appears on page 1. That audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The following consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies. Such information has been subjected to the auditing procedures applied in the audit of the 2007 consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

*STROTHMAN & COMPANY PSC*

Louisville, Kentucky  
February 25, 2008

Consolidating Balance Sheet

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

December 31, 2007

	<u>The Keller Manufacturing Company, Inc.</u>	<u>Paragon Door Designs, Inc.</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
<b>Assets</b>				
<b>Current Assets</b>				
Cash	\$ 12,697			\$ 12,697
Accounts receivable, net		\$ 634,673		634,673
Inventories		434,887		434,887
Prepaid expenses and other	5,054	63,469		68,523
Deferred income taxes		28,136	\$ 6,864	35,000
	<u>17,751</u>	<u>1,161,165</u>	<u>6,864</u>	<u>1,185,780</u>
<b>Property and Equipment</b>				
Machinery and equipment		258,687		258,687
Leasehold improvements		10,428		10,428
Furniture and fixtures		<u>19,855</u>		<u>19,855</u>
		288,970		288,970
Less accumulated depreciation		<u>(92,418)</u>		<u>(92,418)</u>
		196,552		196,552
<b>Other Assets</b>				
Investment in subsidiary	1,313,378		(1,313,378)	
Deferred income taxes			215,000	215,000
Goodwill			<u>703,444</u>	<u>703,444</u>
	<u>1,313,378</u>		<u>(394,934)</u>	<u>918,444</u>
	<u>\$ 1,331,129</u>	<u>\$ 1,357,717</u>	<u>\$ (388,070)</u>	<u>\$ 2,300,776</u>

Continued

Consolidating Balance Sheet--Continued

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

December 31, 2007

	<b>The Keller Manufacturing Company, Inc.</b>	<b>Paragon Door Designs, Inc.</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
<b>Liabilities and Stockholders' Equity</b>				
<b>Current Liabilities</b>				
Checks issued in excess of deposits		\$ 79,906		\$ 79,906
Line of credit		176,010		176,010
Accounts payable	\$ 12,420	138,497		150,917
Accrued expenses	18,848	294,054		312,902
Current maturities of note payable	28,854			28,854
<b>Total Current Liabilities</b>	60,122	688,467		748,589
<b>Long-Term Liabilities,</b> less current maturities				
Note payable	373,146			373,146
Deferred income taxes		50,326	(50,326)	
<b>Total Long-Term Liabilities</b>	373,146	50,326	(50,326)	373,146
<b>Total Liabilities</b>	433,268	738,793	(50,326)	1,121,735
<b>Minority Interest</b>			8,987	8,987
<b>Stockholders' Equity (Deficit)</b>				
Common Stock	462,973	270,400	(270,400)	462,973
Additional paid-in capital	29,190	748,137	(748,137)	29,190
Retained earnings (deficit)	405,698	(189,250)	461,443	677,891
Dividends		(210,363)	210,363	
<b>Total Stockholders' Equity</b>	897,861	618,924	(346,731)	1,170,054
<b>Total Liabilities and Stockholders' Equity</b>	<u>\$ 1,331,129</u>	<u>\$ 1,357,717</u>	<u>\$ (388,070)</u>	<u>\$ 2,300,776</u>

See Independent Auditors' Report  
on Consolidating Information

Consolidating Statement of Operations and Other Comprehensive Income

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

Year Ended December 31, 2007

	<u>The Keller Manufacturing Company, Inc.</u>	<u>Paragon Door Designs, Inc.</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
<b>Net Sales</b>		\$ 4,729,716		\$ 4,729,716
<b>Cost of Goods Sold</b>		<u>3,435,591</u>		<u>3,435,591</u>
<b>Gross Profit</b>		1,294,125		1,294,125
<b>Selling, General and Administrative Expenses</b>	<u>\$ 96,861</u>	<u>1,119,933</u>		<u>1,216,794</u>
<b>Operating Income (Loss)</b>	(96,861)	174,192		77,331
<b>Equity in Income of Consolidated Subsidiary</b>	117,702		\$ (117,702)	
<b>Effect of Pension Plan Termination</b>	(1,487,521)			(1,487,521)
<b>Other Income (Expense), Net</b>	<u>33,390</u>	<u>(18,343)</u>		<u>15,047</u>
<b>Income (Loss) Before Income Taxes and Minority Interest</b>	(1,433,290)	155,849	(117,702)	(1,395,143)
<b>Income Tax Benefit (Expense)</b>		<u>(15,557)</u>	<u>265,557</u>	<u>250,000</u>
<b>Net Income (Loss) Before Minority Interest</b>	(1,433,290)	140,292	147,855	(1,145,143)
<b>Minority Interest in Income of Consolidated Subsidiary</b>			<u>(22,586)</u>	<u>(22,586)</u>
<b>Net Income (Loss)</b>	(1,433,290)	140,292	125,269	(1,167,729)
<b>Additional Pension Liability Adjustment</b>	<u>5,675,177</u>			<u>5,675,177</u>
<b>Total Comprehensive Income</b>	<u>\$ 4,241,887</u>	<u>\$ 140,292</u>	<u>\$ 125,269</u>	<u>\$ 4,507,448</u>

See Independent Auditors' Report  
on Consolidating Information

Unaudited Financial Statements

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

March 31, 2008 and December 31, 2007

THE KELLER MANUFACTURING COMPANY, INC. and SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

	<b>MARCH 31, 2008 (Unaudited)</b>	<b>DECEMBER 31, 2007</b>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 17,924	\$ 12,697
Accounts receivable - net	508,177	634,673
Inventories	596,050	434,887
Prepaid expenses and other assets	89,516	68,523
Deferred Income Taxes	35,000	35,000
<b>Total Current Assets</b>	<b>1,246,667</b>	<b>1,185,780</b>
<b>PROPERTY, PLANT AND EQUIPMENT - net</b>	<b>268,266</b>	<b>196,552</b>
<b>DEFERRED INCOME TAXES</b>	<b>215,000</b>	<b>215,000</b>
Goodwill	703,444	703,444
<b>TOTAL ASSETS</b>	<b>\$ 2,433,377</b>	<b>\$ 2,300,776</b>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</u></b>		
<b>CURRENT LIABILITIES:</b>		
Checks issued in excess of deposits		\$ 79,906
Line of Credit	\$ 295,711	176,010
Accounts payable	308,456	150,917
Accrued expenses	229,729	312,902
Current maturities of notes payable	65,164	28,854
<b>Total Current Liabilities</b>	<b>899,060</b>	<b>748,589</b>
<b>Notes Payable, less current portion</b>	<b>493,273</b>	<b>373,146</b>
<b>TOTAL LIABILITIES</b>	<b>1,392,333</b>	<b>1,121,735</b>
<b>MINORITY INTEREST</b>	<b>-</b>	<b>8,987</b>
<b>STOCKHOLDERS' EQUITY (DEFICIT):</b>		
Common Stock	462,973	462,973
Deferred stock compensation	29,190	29,190
Retained earnings	677,112	1,845,620
Net Income (Loss)	(128,231)	(1,167,729)
<b>Total Stockholders' Equity</b>	<b>1,041,044</b>	<b>1,170,054</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 2,433,377</b>	<b>\$ 2,300,776</b>

**THE KELLER MANUFACTURING COMPANY, INC. and SUBSIDIARY**

**STATEMENTS OF OPERATIONS  
FOR THE THREE MONTHS ENDED MARCH 31, 2008**

---

	<b>(Unaudited)</b>
NET SALES	\$ 909,807
COST OF GOODS SOLD	<u>787,597</u>
<b>GROSS PROFIT</b>	<b>122,210</b>
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>335,848</u>
<b>OPERATING LOSS</b>	<b>(213,638)</b>
OTHER INCOME (EXPENSE), NET	<u>76,420</u>
<b>NET INCOME (LOSS) BEFORE MINORITY INTEREST</b>	<b>(137,218)</b>
MINORITY INTEREST IN INCOME OF CONSOLIDATED SUBSIDIARY	<u>8,987</u>
<b>NET INCOME (LOSS) \$</b>	<b><u><u>(128,231)</u></u></b>

THE KELLER MANUFACTURING COMPANY, INC. and SUBSIDIARY

STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED MARCH 31, 2008

---

	(Unaudited)
<b>OPERATING ACTIVITIES:</b>	
Net Income (Loss)	\$ (128,231)
<b>Adjustments to reconcile net income (loss) to net cash used in operating activities:</b>	
Depreciation and amortization	12,000
Change in minority interest	(8,987)
<b>Changes in Assets and Liabilities:</b>	
Accounts receivable	126,496
Inventory	(161,163)
Prepaid expenses and other current assets	(20,993)
Checks issued in excess of cash on deposit	(79,906)
Accounts payable	157,539
Accrued expenses	(83,952)
<b>Net Cash Provided By (Used In) Operating Activities</b>	<u><b>(187,197)</b></u>
<b>INVESTING ACTIVITIES:</b>	
Purchases of property and equipment	(83,714)
<b>Net Cash Provided By (Used In) Investing Activities</b>	<u><b>(83,714)</b></u>
<b>FINANCING ACTIVITIES:</b>	
Net borrowings under bank credit arrangements	276,138
<b>Net Cash Provided By (Used In) Financing Activities</b>	<u><b>276,138</b></u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>5,227</b>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>12,697</u>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u><b>\$ 17,924</b></u>