

Shareholder Letter

October 31, 2005

KellerFurniture

The Keller Manufacturing Company, Inc.
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The purpose of this shareholder letter is to provide an update on what has happened at Keller since our last shareholder letter in July, to provide general guidance on the near term prospects for the Company, and to provide unaudited financial statements for the three and nine month periods ended September 30, 2005. We have posted this letter, other recent shareholder letters, and the financial statements on our web site for your reference.

We are currently in the process of selling our last few trailer loads of imported bedroom and dining room furniture. We are now selling item quantities that are not well balanced which has required significant price reduction in order to move the product. We have substantially completed our accounts receivable collection efforts with the exception of a few unresolved collection actions initiated by Keller. We have been pleased with the inventory prices realized and our accounts receivable collection efforts during the first three quarters of this year. We have invested available cash in high quality money market investments which currently yield approximately 4%.

We continue to seek buyers for the "Keller Furniture" brand name and are in preliminary negotiations with a potential buyer. We also continue to seek buyers for our last remaining parcel of real estate (30 acres of vacant land in New Salisbury, Indiana). We have two full-time employees (each of whom is entitled to severance payments upon termination of employment) and two part-time contract workers. We recently renegotiated our warehouse lease with very favorable terms to Keller. We expect to be out of all warehouse space sometime in the fourth quarter of this year. Our office lease agreement is on a month to month basis. The members of the Keller Board of Directors do not receive any compensation for their services.

During the third quarter of this year, we continued our efforts to identify and acquire a new operating business. We continued to primarily target established operating businesses in light manufacturing, distribution, and services sectors. We also expanded our search to include early stage and start-up businesses. To date, we have evaluated approximately 75 companies/opportunities. It is possible that one or more of these may develop into a viable opportunity for us; however, at this point we have not progressed beyond preliminary indications of interest with any potential target and we do not have anything definitive to report other than the fact that the search is continuing. Our efforts are focused on acquiring a business rather than making a minority investment in an existing business as the latter would likely cause us to be treated as an "investment company" under the Investment Company Act of 1940 which would require compliance with burdensome (and ultimately costly) federal and state regulations.

During the third quarter, we made the large 2004 pension contribution of \$476,235 which was referenced in our last shareholder letter. Despite the large accrued pension liability recorded on our balance sheet, Keller has made all legally required funding contributions to the pension to date. Due to limited Company resources, we are currently evaluating our ability to fund additional pension plan contributions. We do not know the exact amount of future pension contributions since the amount recorded on our balance sheet is an actuarial estimate which will likely change in the future. We do not expect to know significantly more about future funding requirements for the pension until after the January 1, 2006 annual actuarial valuation is completed (expected to be late in the first quarter). This annual valuation will set the amount of

the 2005 pension contribution payable in 2006. Payments made by the pension plan trust to plan participants are insured by the Pension Benefit Guaranty Corporation with certain limitations.

At this point, we have generally been pleased with the progress of the wind down of our furniture operations but we continue to have difficulties finding an acceptable business to acquire. Our limited assets and the lack of certainty regarding the magnitude and timing of future cash contributions to the Keller pension have proven to be very significant challenges in our search for a new business. While no timeline has been set, the Board continues to weigh the potential benefits of continuing the search for a new business versus winding up the affairs of Keller and contributing the remaining cash toward payment of our liabilities (primarily the pension). In making this analysis, the Board's focus is on determining the best way to satisfy the pension obligation. If, at some point in the future, the Board determines to abandon the search for a new business, the Board will consider the best ways to complete the wind down of Keller's business, including bankruptcy.

At this point, the Board has determined to continue the search for a new business, although there is no guarantee of how long we will continue this search in earnest. Certainly, there is no guarantee that we will be able to find a business acceptable to our Board given our limited resources and large pension obligation. Moreover, there is no guarantee that any new business venture will be successful or large enough to create acceptable value over the near term or thereafter. Limited Company assets along with our responsibility to settle Company obligations may not leave enough cash to acquire a significant business enterprise. There is also no guarantee that Keller will benefit from its approximate \$20 million of unused net operating losses (NOL's). Given these factors, Keller shareholders should not expect a dividend or cash distribution in the near term or thereafter as our liabilities significantly exceed our assets.

Keller shares regularly 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.

In summary, our shareholders should consider that our primary obligation is to address our pension liability in a responsible manner. At this time we have not located a new business to acquire. While we plan to continue our search in the near term, we do not know if we will be successful or how long we will maintain our search efforts. We plan to report to you again after the end of the year or sooner if necessary.

Sincerely,

/s/ David T. Richardson

President & CEO

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

*Consolidated Unaudited Financial Statements for the
three and the nine months ended September 30, 2005
and 2004.*

THE KELLER MANUFACTURING COMPANY, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2005 AND 2004 AND DECEMBER 31, 2004

	SEPTEMBER 30, <u>2005</u> <u>2004</u>		DECEMBER 31, <u>2004</u>
	(Unaudited)		
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash	\$ 258,535	\$ 617,662	\$ 1,093,734
Investments available for sale	1,145,000	-	-
Accounts receivable, less allowance for doubtful accounts of \$10,000 at September 30, 2005 , \$798,000 at September 30, 2004 and \$500,000 at December 31, 2004	29,491	973,782	556,155
Inventories	61,621	1,295,921	1,542,810
Income taxes refundable	-	7,421	-
Other current assets	-	46,885	-
Total Current Assets	1,494,647	2,941,671	3,192,699
PROPERTY, PLANT AND EQUIPMENT - net	4,672	1,874,604	6,022
TOTAL ASSETS	\$ 1,499,319	\$ 4,816,275	\$ 3,198,721
<u>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</u>			
CURRENT LIABILITIES:			
Accounts payable	\$ 73,418	\$ 978,467	\$ 688,460
Accrued commissions, salaries & withholdings	-	214,778	25,180
Accrued vacation	-	200,886	-
Allowance for sales returns	25,000	460,931	100,000
Accrued health, life & workers compensation insurance	20,000	666,251	54,909
Accrued property taxes	-	126,913	-
Other current liabilities	16,218	302,836	106,329
Total Current Liabilities	134,636	2,951,062	974,878
LONG-TERM LIABILITIES:			
Accrued pension liability	3,881,320	1,740,415	3,881,320
Other long-term liabilities	-	38,580	25,720
Total Long-Term Liabilities	3,881,320	1,778,995	3,907,040
TOTAL LIABILITIES	4,015,956	4,730,057	4,881,918
STOCKHOLDERS' EQUITY (DEFICIT):			
Common stock - no par value, authorized 40,000,000 shares, issued and outstanding 4,870,224 at September 30, 2005, 4,870,224 at September 30, 2004, and 4,870,224 at December 31, 2004.	439,523	439,523	439,523
Deferred stock compensation	393,524	213,161	301,391
Accumulated other comprehensive loss	(3,286,497)	(1,655,263)	(3,286,497)
Retained earnings	(63,187)	1,088,797	862,386
Total Stockholders' Equity (Deficit)	(2,516,637)	86,218	(1,683,197)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 1,499,319	\$ 4,816,275	\$ 3,198,721

THE KELLER MANUFACTURING COMPANY, INC. AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND THE NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004**

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	(Unaudited)		(Unaudited)	
NET SALES	\$ 239,702	\$ 2,169,907	\$ 2,036,413	\$ 9,413,429
COST OF GOODS SOLD	<u>262,329</u>	<u>4,250,342</u>	<u>1,902,562</u>	<u>14,854,980</u>
GROSS PROFIT (LOSS)	(22,627)	(2,080,435)	133,851	(5,441,551)
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>604,938</u>	<u>2,961,025</u>	<u>1,514,508</u>	<u>5,727,777</u>
OPERATING LOSS	(627,565)	(5,041,460)	(1,380,657)	(11,169,328)
OTHER INCOME (EXPENSE):				
Interest income	8,536	7,853	15,622	47,115
Interest expense	(226)	(271)	(436)	(1,342)
Gain (loss) on sales of fixed assets	-	(278,408)	-	267,453
Other income (expense)	<u>105,892</u>	<u>(21,153)</u>	<u>439,898</u>	<u>(41,110)</u>
Total Other Income (Expense), net	<u>114,202</u>	<u>(291,979)</u>	<u>455,084</u>	<u>272,116</u>
LOSS BEFORE INCOME TAXES	(513,363)	(5,333,439)	(925,573)	(10,897,212)
INCOME TAX PROVISION (BENEFIT)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET LOSS	<u>\$ (513,363)</u>	<u>\$ (5,333,439)</u>	<u>\$ (925,573)</u>	<u>\$ (10,897,212)</u>

THE KELLER MANUFACTURING COMPANY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE AND THE NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	(Unaudited)		(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net Loss	\$ (513,363)	\$ (5,333,439)	\$ (925,573)	\$ (10,897,212)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Depreciation	450	125,890	1,350	585,890
(Gain) Loss on fixed asset disposals	-	278,408	-	(267,453)
Increases (decreases) to inventory reserve	(26,000)	2,751,473	(270,006)	3,920,409
Compensation for stock options granted	30,711	42,000	92,133	139,998
Changes in Assets and Liabilities:				
Accounts receivable	30,616	473,096	526,664	698,874
Inventory	246,496	138,553	1,751,195	1,733,577
Income taxes refundable / payable	-	-	-	(6,000)
Other current assets	-	68,512	-	48,261
Prepaid pension costs / accrued pension liability	-	20,000	-	145,422
Accounts payable	(20,621)	(303,006)	(615,042)	(486,980)
Accrued commissions, salaries & withholdings & accrued vacation	(17,676)	61,212	(25,180)	13,092
Allowance for sales returns	(25,000)	(258)	(75,000)	(44,497)
Accrued health, life & workers compensation insurance	-	66,369	(34,909)	(49,843)
Other liabilities	3,123	(166,098)	(115,831)	(102,419)
Total Adjustments	222,099	3,556,151	1,235,374	6,328,331
Net Cash Provided By (Used In) Operating Activities	(291,264)	(1,777,288)	309,801	(4,568,881)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property, plant & equipment	-	(10,625)	-	(742,060)
Proceeds from sales of property, plant & equipment	-	180,770	-	1,756,741
Purchase of investments available for sale	-	-	(1,345,000)	-
Proceeds from disposal of investments available for sale	200,000	250,001	200,000	2,754,838
Net Cash Provided By (Used In) Investing Activities	200,000	420,146	(1,145,000)	3,769,519
CASH FLOWS FROM FINANCING ACTIVITIES:				
Redemptions of common stock	-	-	-	(1,231,794)
Net Cash Used In Financing Activities	-	-	-	(1,231,794)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(91,264)	(1,357,142)	(835,199)	(2,031,156)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	349,799	1,974,804	1,093,734	2,648,818
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 258,535	\$ 617,662	\$ 258,535	\$ 617,662