

# Shareholder Letter

December 26, 2007

The Keller Manufacturing Company, Inc.  
P. O. Box 9395, Louisville, KY 40209-0395  
[www.kellermanufacturing.com](http://www.kellermanufacturing.com)

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The purpose of this letter is to inform shareholders of the key corporate activities of The Keller Manufacturing Company, Inc (“Keller”) occurring since the last shareholder letter of June 12, 2007 and to update the shareholders on the status of Keller as it relates to key corporate events, strategies and previously reported matters. This letter will also report on and provide a copy of the 2007 corporate third (3<sup>rd</sup>) quarter unaudited financial statements. Prior similar communications have been posted for shareholder and other interested parties’ convenience on the corporate web site a [www.kellermanufacturing.com](http://www.kellermanufacturing.com).

Keller’s major asset remains its interest in Louisville based Paragon Door Designs, Inc. (“Paragon”). It was previously reported that Keller acquired an 85.3% equity interest in Paragon in January 2006. Keller paid \$420,000 for its equity interest and contributed an additional \$720,000 to Paragon for debt repayment, for a total investment of \$1,140,000. Keller’s equity interest in Paragon decreased slightly in the second quarter of 2006 from 85.3% to 83.9% due to Paragon stock options exercised by David N. Burks, its founder and CEO. After the closing of the Paragon transaction, Paragon obtained a \$600,000 credit facility with a commercial bank. In order to obtain this credit facility, it was necessary for Paragon to obtain the personal guarantees of certain individuals (all of whom are either Keller or Paragon shareholders and directors) for the entire \$600,000 facility. In order to compensate these individuals during 2006 for the personal guarantees, Keller issued warrants to them (60,000 total) pursuant to which they can purchase shares of Keller’s common stock for \$.01 per share. 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. In May of 2007, the credit facility for Paragon was renewed and reduced to \$450,000. This facility was guaranteed by certain Keller shareholders and directors. Keller issued warrants proportionately as compensation for these guarantees (a total of 45,000 warrants). During the third quarter of 2007, warrants covering 45,000 shares were exercised which increased the total number of issued and outstanding shares from 4,920,224 to 4,965,224 shares (accordingly, 10,000 warrants issued to the guarantors in 2006 remain unexercised). It should be noted that other warrants and options previously reported remain unexercised to this date.

Shareholders are reminded that Paragon was 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 29 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).

Two major events related to Keller's pension liability have occurred since the last shareholder letter. It was previously reported that Keller had begun negotiations with the Pension Board Guarantee Corporation ("PBGC") to terminate The Keller Manufacturing Company, Inc. Employees' Pension Plan ("Plan") in what is known as a "distress termination". Keller's board of directors had determined that Keller can no longer afford to maintain the Plan. Application for termination was made in October 2006.

The first major event to occur since the last shareholder letter was the announcement on July 13, 2007 that the PBGC had become trustee of the Plan, effective June 29, 2007. The PBGC further announced at the same time that the Plan had been terminated retroactive to July 26, 2006 and that the PBGC had assumed responsibility for the Plan's unfunded liabilities. The assumption of the event quantified the amount of the liability of the under-funding which Keller had in the Plan at approximately \$4,600,000 (plus an additional amount owed to the PBGC because of certain unpaid premiums due the PBGC). The PBGC and Keller (as well as Paragon) began negotiations to address Keller's under-funded liability with the PBGC.

The second major event occurred on December 21, 2007 when Keller announced that it had entered into a settlement agreement with the PBGC settling all liabilities of Keller and its subsidiary, Paragon, with respect to the Plan. Keller announced on December 21, 2007 (please refer to the press release of December 21, 2007 which is posted on the Keller's website) that under the guidance of the Keller Board of Directors and Paragon senior management, it had reached a full and final agreement with the PBGC for 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) are parties to this agreement. Under this agreement, and once the \$400,000 has been paid, Keller and Paragon are released from all past and future liability including but not limited to the release of any and all further liability for any potential unfunded liability of the Plan. It is anticipated that the \$400,000 payment will be made on or before December 28, 2007.

The settlement agreement with the PBGC and the termination of the Plan will have no impact on most Plan participants who will continue to receive the benefits they are entitled to receive under the Plan subject to limitations on the maximum amount of benefits under federal pension law.

To fund the \$400,000 payment to the PBGC, Keller has 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 commensurate with their guarantee. It should be noted that the guarantees of these individuals on the credit facility of Paragon (identified in the second paragraph above) were released simultaneously with execution of Keller's \$400,000 loan and the attendant guarantees to this loan.**

**The third quarter results and year to date financial statements are attached hereto and incorporated by reference as if fully set forth. Notable among those results is the net income of Keller of \$53,357.**

**Keller looks forward to benefiting from its 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  
President and Chairman of the Board of Directors  
The Keller Manufacturing Company, Inc.**

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

*Unaudited Financial Statements for the three and the nine months ended  
September 30, 2007.*

THE KELLER MANUFACTURING COMPANY, INC. and SUBSIDIARY

BALANCE SHEETS

SEPTEMBER 30, 2007 AND DECEMBER 31, 2006

	SEPTEMBER 30, <u>2007</u> (Unaudited)	DECEMBER 31, <u>2006</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ -	\$ 40,937
Accounts receivable - net	636,609	486,645
Inventories	515,167	433,506
Prepaid expenses and other assets	78,454	71,357
<b>Total Current Assets</b>	<b>1,230,230</b>	<b>1,032,445</b>
<b>PROPERTY, PLANT AND EQUIPMENT - net</b>	<b>158,074</b>	<b>109,097</b>
<b>GOODWILL</b>	<b>703,444</b>	<b>703,444</b>
<b>TOTAL ASSETS</b>	<b>\$ 2,091,748</b>	<b>\$ 1,844,986</b>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</u></b>		
<b>CURRENT LIABILITIES:</b>		
Checks issued in excess of cash on deposit	\$ 17,200	\$ -
Line of credit	263,101	198,000
Accounts payable	233,279	184,798
Accrued expenses	285,164	237,675
<b>Total Current Liabilities</b>	<b>798,744</b>	<b>620,473</b>
<b>LONG-TERM LIABILITIES:</b>		
Accrued pension liability	4,587,656	4,587,656
<b>Total Long-Term Liabilities</b>	<b>4,587,656</b>	<b>4,587,656</b>
<b>TOTAL LIABILITIES</b>	<b>5,386,400</b>	<b>5,208,129</b>
<b>MINORITY INTEREST</b>	<b>1,085</b>	<b>(13,599)</b>
<b>STOCKHOLDERS' EQUITY (DEFICIT):</b>		
Common Stock	462,973	450,823
Additional paid-in capital	17,490	29,190
Retained earnings (deficit)	1,898,977	1,845,620
Accumulated other comprehensive loss	(5,675,177)	(5,675,177)
<b>Total Stockholders' Equity (Deficit)</b>	<b>(3,295,737)</b>	<b>(3,349,544)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>	<b>\$ 2,091,748</b>	<b>\$ 1,844,986</b>

THE KELLER MANUFACTURING COMPANY, INC. and SUBSIDIARY

STATEMENTS OF OPERATIONS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2007

	THREE MONTHS ENDED SEPTEMBER 30, <u>2007</u> (Unaudited)	NINE MONTHS ENDED SEPTEMBER 30, <u>2007</u> (Unaudited)
Net Sales	\$ 1,188,692	\$ 3,510,431
Cost of Goods Sold	<u>848,238</u>	<u>2,585,449</u>
<b>GROSS PROFIT</b>	<b>340,454</b>	<b>924,982</b>
Selling, General and Administrative Expenses	<u>295,340</u>	<u>891,925</u>
<b>OPERATING INCOME (LOSS)</b>	<b>45,114</b>	<b>33,057</b>
Other Income (Expenses) - net	<u>(5,451)</u>	<u>34,984</u>
<b>INCOME (LOSS) BEFORE MINORITY INTEREST</b>	<b>39,663</b>	<b>68,041</b>
Minority Interest in Income of Consolidated Subsidiary	<u>(11,030)</u>	<u>(14,684)</u>
<b>NET INCOME (LOSS)</b>	<b><u>\$ 28,633</u></b>	<b><u>\$ 53,357</u></b>

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

**STATEMENTS OF CASH FLOWS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007**

**NINE MONTHS ENDED  
SEPTEMBER 30,  
2007  
(Unaudited)**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

<b>Net Income (Loss)</b>	<b>\$ 53,357</b>
<b>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:</b>	
Depreciation and amortization	35,000
Noncash stock option compensation	(11,700)
Change in minority interest	14,684
<b>Changes in Assets and Liabilities:</b>	
Accounts receivable	(149,964)
Inventories	(81,661)
Prepaid expenses and other assets	(7,097)
Checks issued in excess of cash on deposit	17,200
Accounts payable	48,481
Accrued expenses	47,489
<b>Total Adjustments</b>	<b>(87,568)</b>
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>(34,211)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Purchases of property and equipment	(83,977)
<b>Net Cash Provided By (Used In) Investing Activities</b>	<b>(83,977)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Issuance of common stock	12,150
Net borrowings under line of credit agreement	65,101
<b>Net Cash Provided By (Used In) Financing Activities</b>	<b>77,251</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(40,937)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>40,937</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ -</b>