

# Shareholder Letter

December 4, 2006

The Keller Manufacturing Company, Inc.

124 North First Street, Louisville, KY 40202

502/814-1450 [www.kellerfurniture.com](http://www.kellerfurniture.com)

The purpose of this shareholder letter is to provide an update on what has happened at Keller since our last shareholder letter dated August 14, 2006 and to provide unaudited financial statements for the third quarter of 2006. We have posted this letter, other shareholder letters, press releases, and financial statements on our web site for your reference.

Keller acquired an 85.3% equity interest in Louisville-based Paragon Door Designs, Inc. ("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 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 some of whom are also on the Keller Board of Directors) for the entire \$600,000 facility. In order to compensate these individuals during 2006 for the personal guarantees provided, 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. During the second quarter of 2006, 50,000 warrants were exercised increasing total outstanding shares from 4,870,224 to 4,920,224 leaving 10,000 unexercised warrants related to this credit facility. It is anticipated that the credit facility will be re-negotiated for 2007 (and perhaps longer), and that the guarantors of the line will require compensation similar to what they received during 2006, but this is subject to negotiation with the lender and the guarantors. Keller also has 308,750 additional unexercised warrants outstanding to a former employee, as disclosed in the footnotes to the 2005 audited financial statements.

Founded in 1993, Paragon manufactures 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 20 states. Paragon has 27 employees and has been profitable for many years with \$3,670,436 of sales and net income of \$20,271 in 2005. Paragon reported third quarter 2006 net sales of \$1,067,781 and net income of \$36,657. For the nine months ended September 30, 2006, Paragon reported net sales of \$3,157,699 and net income of \$92,759. At September 30, 2006, Paragon had total assets of \$1,175,260 and total liabilities of \$698,059. Paragon's founder, President, and Chief Executive Officer is David N. Burks, an industry veteran with over 25 years of experience. Other than the warrants discussed above, Mr. Burks owns the balance of the equity of Paragon not acquired by Keller. For more information about the products offered by Paragon, please visit [www.paragondoor.com](http://www.paragondoor.com).

In April of 2006, Keller announced publicly that it had initiated formal action with the Pension Benefit Guaranty Corporation ("PBGC") to terminate The Keller Manufacturing Company, Inc. Employees' Pension Plan ("Plan") in what is known as a "distress termination" (the press release issued by Keller is posted on our website). Keller's board of directors has determined that Keller can no longer afford to maintain the Plan. Further, Keller's board has determined that Paragon cannot support the ongoing liabilities associated with the Plan. Accordingly, in October 2006 Keller filed Form 601 with the PBGC. Form 601 is used to ask the PBGC to approve

termination of the Plan. Over the past few months, Keller representatives have had two significant conference calls with key PBGC officials for the purpose of discussing the details of the Form 601 filing. At this point, we believe it could take many months before the PBGC makes a termination decision. If the PBGC makes the favorable decision that Keller and its subsidiary cannot afford to support the Plan then the PBGC will be faced with a second decision of how to resolve Keller's large pension liability. Keller is hopeful that the PBGC will approve termination of its Plan and assume trusteeship and full responsibility for the Plan. Keller is further hopeful that it will be able to work with the PBGC to finally resolve all pension plan liabilities pursuant to terms which are acceptable to the PBGC and affordable for Keller and its new subsidiary, Paragon. However, there can be no assurance that the PBGC will approve the termination of the Plan or that the PBGC will be willing to work with Keller and Paragon to resolve its large pension liability in a manner which will allow Keller to continue to own a significant interest in Paragon. It is possible that the PBGC will require Keller to liquidate its business and sell its controlling interest in Paragon and contribute the proceeds towards settlement of the Keller pension liability.

The Plan's actuaries have calculated an accrued pension liability of \$3,957,368 at December 31, 2005, up from \$3,881,320 at December 31, 2004. However, based on the alternative actuarial methodology required by the PBGC for calculating the pension plan liability on a "termination basis", this accrued pension liability is estimated to be \$5,600,000 (as estimated on PBGC Schedule EA-D filed in October 2006) and could be substantially higher.

The initial determination by the Plan's actuaries is that retirement benefits for approximately 98% of the participants in the Plan should be fully guaranteed by the PBGC and not reduced as a result of the distress termination (this is subject to review and approval by the PBGC). The Plan's actuaries also believe that a small portion of the retirement benefits for those Plan participants who had earnings over \$170,000 annually (less than 2% of the Plan participants) will not be fully guaranteed by the PBGC. The Plan's actuaries estimate that these higher wage earners will experience a reduction in their benefits of less than \$100 per person per month. Keller has communicated directly with all Plan participants regarding the termination action and the impact it may have on their benefits, if any. More information about the funding status of the Plan can be found in the footnotes to the 2005 audited financial statements.

We have tried unsuccessfully to sell the "Keller Furniture" brand name. We do not believe the "Keller Furniture" brand name has any marketable value. During the second quarter of 2006 Keller signed a contract to sell 30 acres of vacant land in New Salisbury, Indiana for an amount below the asking price. This transaction failed to close and the land remains listed for sale at \$100,000.

Two ex-employees continue to assist the Board on a contract basis. 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 except for the lease covering the Company's office in Louisville, which has been paid through March of 2007. There can be no guarantee that Keller will ever benefit from its approximate \$22 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 held its annual Shareholders' meeting on June 29, 2006 in Louisville, KY. Ron W. Humin, John C. Schenkenfelder and S. Oden Howell, Jr. were re-elected to the Board of Directors. There were no other formal actions taken at the Shareholder meeting. Keller officers are as follows: Ronald W. Humin, President & Chairman of the Board, S. Oden Howell, Jr., Secretary, and John C. Schenkenfelder, Pension Plan Administrator.

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.

# ***The Keller Manufacturing Company, Inc.***

*Unaudited Financial Statements for the three and the nine months ended  
September 30, 2006 and 2005.*

THE KELLER MANUFACTURING COMPANY, INC.

BALANCE SHEETS  
SEPTEMBER 30, 2006 AND 2005 AND DECEMBER 31, 2005

	SEPTEMBER 30, 2006 (Unaudited)		DECEMBER 31, 2005
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash	\$ 36,824	\$ 258,535	\$ 1,395,307
Investments available for sale	-	1,145,000	-
Accounts receivable, less allowance for doubtful accounts of \$0 at September 30, 2006, \$10,000 at September 30, 2005 and \$0 at December 31, 2005	-	29,491	-
Inventories	-	61,621	-
Other current assets	-	-	21,698
<b>Total Current Assets</b>	<b>36,824</b>	<b>1,494,647</b>	<b>1,417,005</b>
<b>PROPERTY, PLANT AND EQUIPMENT - net</b>	<b>-</b>	<b>4,672</b>	<b>4,222</b>
<b>OTHER ASSETS</b>			
Investment in subsidiary **	1,217,817	-	-
<b>TOTAL ASSETS</b>	<b>\$ 1,254,641</b>	<b>\$ 1,499,319</b>	<b>\$ 1,421,227</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts payable	\$ 1,518	\$ 73,418	\$ 29,076
Accrued commissions, salaries & withholdings	-	-	-
Allowance for sales returns	-	25,000	-
Accrued health, life & workers compensation insurance	-	20,000	-
Other current liabilities	5,000	16,218	16,585
<b>Total Current Liabilities</b>	<b>6,518</b>	<b>134,636</b>	<b>45,661</b>
<b>LONG-TERM LIABILITIES:</b>			
Accrued pension liability	3,957,368	3,881,320	3,957,368
<b>Total Long-Term Liabilities</b>	<b>3,957,368</b>	<b>3,881,320</b>	<b>3,957,368</b>
<b>TOTAL LIABILITIES</b>	<b>3,963,886</b>	<b>4,015,956</b>	<b>4,003,029</b>
<b>STOCKHOLDERS' EQUITY (DEFICIT):</b>			
Common stock - no par value, authorized 40,000,000 shares, issued and outstanding 4,920,224 at September 30, 2006, 4,870,224 at September 30, 2005 and December 31, 2005.	440,023	439,523	439,523
Deferred stock compensation	510,519	393,524	510,519
Accumulated other comprehensive loss	(3,407,917)	(3,286,497)	(3,407,917)
Retained earnings (deficit)	(251,870)	(63,187)	(123,927)
<b>Total Stockholders' Equity (Deficit)</b>	<b>(2,709,245)</b>	<b>(2,516,637)</b>	<b>(2,581,802)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>	<b>\$ 1,254,641</b>	<b>\$ 1,499,319</b>	<b>\$ 1,421,227</b>

\*\*Keller's 83.9% equity investment in Paragon Door Designs, Inc. has been recorded using the equity method of accounting. This treatment is a departure from generally accepted accounting principles, which requires consolidation at this level of investment.

THE KELLER MANUFACTURING COMPANY, INC.

STATEMENTS OF OPERATIONS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2006 (Unaudited)	2005 (Unaudited)	2006 (Unaudited)	2005 (Unaudited)
NET SALES	\$ -	\$ 239,702	\$ -	\$ 2,036,413
COST OF GOODS SOLD	-	262,329	-	1,902,562
<b>GROSS PROFIT</b>	-	<b>(22,627)</b>	-	<b>133,851</b>
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	25,136	604,938	225,370	1,514,508
<b>OPERATING LOSS</b>	<b>(25,136)</b>	<b>(627,565)</b>	<b>(225,370)</b>	<b>(1,380,657)</b>
<b>OTHER INCOME (EXPENSE):</b>				
Interest income	443	8,536	2,607	15,622
Interest expense	-	(226)	-	(436)
Proportionate share in net income of subsidiary**	30,129	-	77,817	-
Other income (expense)	761	105,892	17,003	439,898
<b>Total Other Income (Expense), net</b>	<b>31,333</b>	<b>114,202</b>	<b>97,427</b>	<b>455,084</b>
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>6,197</b>	<b>(513,363)</b>	<b>(127,943)</b>	<b>(925,573)</b>
INCOME TAX PROVISION (BENEFIT)	-	-	-	-
<b>NET INCOME (LOSS)</b>	<b>\$ 6,197</b>	<b>\$ (513,363)</b>	<b>\$ (127,943)</b>	<b>\$ (925,573)</b>

\*\*Keller's 83.9% equity investment in Paragon Door Designs, Inc. has been recorded using the equity method of accounting. This treatment is a departure from generally accepted accounting principles, which requires consolidation at this level of investment.

THE KELLER MANUFACTURING COMPANY, INC.

STATEMENTS OF CASH FLOWS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2006 (Unaudited)	2005 (Unaudited)	2006 (Unaudited)	2005 (Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net Income (Loss)	\$ 6,197	\$ (513,363)	\$ (127,943)	\$ (925,573)
<b>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:</b>				
Depreciation	1,222	450	4,222	1,350
Increases (decreases) to inventory reserve	-	(26,000)	-	(270,006)
Proportionate share in net (income) of subsidiary**	(30,129)	-	(77,817)	-
Compensation for stock options granted	-	30,711	-	92,133
<b>Changes in Assets and Liabilities:</b>				
Accounts receivable	-	30,616	-	526,664
Inventory	-	246,496	-	1,751,195
Other current assets	-	-	21,698	-
Accounts payable	(2,358)	(20,621)	(27,558)	(615,042)
Accrued commissions, salaries & withholdings & accrued vacation	-	(17,676)	-	(25,180)
Allowance for sales returns	-	(25,000)	-	(75,000)
Accrued health, life & workers compensation insurance	-	-	-	(34,909)
Other liabilities	(5,000)	3,123	(11,585)	(115,831)
<b>Total Adjustments</b>	<b>(36,265)</b>	<b>222,099</b>	<b>(91,040)</b>	<b>1,235,374</b>
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>(30,068)</b>	<b>(291,264)</b>	<b>(218,983)</b>	<b>309,801</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchases of investments available for sale	-	-	-	(1,345,000)
Proceeds from disposal of investments available for sale	-	200,000	-	200,000
Investment in subsidiary**	-	-	(1,140,000)	-
<b>Net Cash Provided By (Used In) Investing Activities</b>	<b>-</b>	<b>200,000</b>	<b>(1,140,000)</b>	<b>(1,145,000)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Issuance of common stock	-	-	500	-
<b>Net Cash Provided By (Used In) Financing Activities</b>	<b>-</b>	<b>-</b>	<b>500</b>	<b>-</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(30,068)</b>	<b>(91,264)</b>	<b>(1,358,483)</b>	<b>(835,199)</b>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	66,892	349,799	1,395,307	1,093,734
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 36,824</b>	<b>\$ 258,535</b>	<b>\$ 36,824</b>	<b>\$ 258,535</b>

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