

# Shareholder Letter

July 29, 2005

## KellerFurniture

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 in May, to provide general guidance on the near term business prospects for the Company, and to provide unaudited financial statements for the second quarter of 2005. We have posted recent shareholder letters and financial statements on our web site [www.kellerfurniture.com](http://www.kellerfurniture.com) for your reference.

In June we had our annual meeting of shareholders where we reviewed the May shareholder letter and elected directors. The Keller Board now consists of three directors. John Schenkenfelder and Ron Humin were re-elected and Denny Howell was added. After the formal shareholder meeting I made a brief presentation covering the challenges of the past few years followed by a question and answer session.

We are currently still in the process of selling five lines of imported bedroom and dining room furniture. Most of this furniture is in good condition but we are now approaching item quantities that are not well balanced. During the first half of this year we successfully sold inventory slightly above our cost which is not sustainable going forward. We have substantially completed our accounts receivable collection efforts and have generally been pleased with the results of this challenging process. We have invested available cash in high quality money market investments. We continue to seek a buyer for the "Keller Furniture" name and for about 30 acres of land in New Salisbury, Indiana.

During the second quarter of this year our primary focus turned to finding a new operating business. We continue to target established operating businesses in light manufacturing, distribution, and services sectors. We have evaluated approximately fifty companies and have made non-binding written offers on two. The first target company sold to another party and the second target recently rejected our written offer. We are hopeful that we can complete an acquisition or investment transaction sometime in the second half of this year. Though we are generally seeking a controlling stake in acquisition targets it is likely that Keller and its shareholders may not control the target company but instead would be one of multiple investors whom as a group would acquire all or a controlling interest in a target company.

There is no guarantee that we will be able to find a business acceptable to our board and our shareholders given our limited resources and large pension obligation. Moreover, there is also no guarantee that any next business venture will be successful or large enough to create value acceptable to our shareholders 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). Further, Keller shareholders should not expect a dividend or cash distribution in the near term or thereafter since our liabilities significantly exceed our assets.

We plan to fund the 2004 pension contribution in September of this year for \$476,235. Despite the large accrued pension liability recorded on our balance sheet Keller has made all legal funding contributions to the pension. Due to limited Company resources we are currently evaluating our ability to fund additional pension plan contributions beyond the 2004 contribution planned for September of this year. We do not expect to know significantly more about the future funding requirements of our pension until the January 1, 2006 actuarial valuation is

completed sometime in the first quarter of 2006. Payments made by our pension trust to plan participants are insured by the Pension Benefit Guarantee Corporation with certain limitations.

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

In summary, our primary challenge is to address our underfunded pension obligation while considering acquisition of an operating business. There is no guarantee that we will be successful in solving one or both of these challenges. We will report to you again in the fourth quarter of this year.

Sincerely,

/s/ David T. Richardson

President & CEO

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

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

THE KELLER MANUFACTURING COMPANY, INC. AND SUBSIDIARY

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

	JUNE 30, <u>2005</u> <u>2004</u> (Unaudited)		DECEMBER 31, <u>2004</u>
<b><u>ASSETS</u></b>			
<b>CURRENT ASSETS:</b>			
Cash	\$ 349,799	\$ 1,974,804	\$ 1,093,734
Investments available for sale	1,345,000	250,158	-
Accounts receivable, less allowance for doubtful accounts of \$38,000 at June 30, 2005 , \$860,000 at June 30, 2004 and \$500,000 at December 31, 2004	60,107	1,446,878	556,155
Inventories	282,117	2,309,120	1,542,810
Income taxes refundable	-	7,421	-
Other current assets	-	115,397	-
<b>Total Current Assets</b>	<b>2,037,023</b>	<b>6,103,778</b>	<b>3,192,699</b>
<b>PROPERTY, PLANT AND EQUIPMENT - net</b>	<b>5,122</b>	<b>4,325,874</b>	<b>6,022</b>
<b>TOTAL ASSETS</b>	<b><u>\$ 2,042,145</u></b>	<b><u>\$ 10,429,652</u></b>	<b><u>\$ 3,198,721</u></b>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</u></b>			
<b>CURRENT LIABILITIES:</b>			
Accounts payable	\$ 94,039	\$ 1,281,473	\$ 688,460
Accrued commissions, salaries & withholdings	17,676	153,566	25,180
Accrued vacation	-	315,000	-
Allowance for sales returns	50,000	461,189	100,000
Accrued health, life & workers compensation insurance	20,000	599,882	54,909
Accrued property taxes	-	180,000	-
Other current liabilities	13,095	301,733	106,329
<b>Total Current Liabilities</b>	<b>194,810</b>	<b>3,292,843</b>	<b>974,878</b>
<b>LONG-TERM LIABILITIES:</b>			
Accrued pension liability	3,881,320	1,720,415	3,881,320
Other long-term liabilities	-	38,580	25,720
<b>Total Long-Term Liabilities</b>	<b>3,881,320</b>	<b>1,758,995</b>	<b>3,907,040</b>
<b>TOTAL LIABILITIES</b>	<b>4,076,130</b>	<b>5,051,838</b>	<b>4,881,918</b>
<b>STOCKHOLDERS' EQUITY (DEFICIT):</b>			
Common stock - no par value, authorized 40,000,000 shares, issued and outstanding 4,870,224 at June 30, 2005, 4,869,474 at June 30, 2004, and 4,870,224 at December 31, 2004, respectively.	439,523	439,523	439,523
Deferred stock compensation	362,813	171,161	301,391
Accumulated other comprehensive loss	(3,286,497)	(1,655,106)	(3,286,497)
Retained earnings	450,176	6,422,236	862,386
<b>Total Stockholders' Equity (Deficit)</b>	<b>(2,033,985)</b>	<b>5,377,814</b>	<b>(1,683,197)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>	<b><u>\$ 2,042,145</u></b>	<b><u>\$ 10,429,652</u></b>	<b><u>\$ 3,198,721</u></b>

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

**CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE AND THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004**

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	<u>2005</u> (Unaudited)	<u>2004</u>	<u>2005</u> (Unaudited)	<u>2004</u>
NET SALES	\$ 535,957	\$ 3,102,867	\$ 1,796,711	\$ 7,243,522
COST OF GOODS SOLD	468,737	5,888,525	1,640,233	10,604,638
<b>GROSS PROFIT (LOSS)</b>	<b>67,220</b>	<b>(2,785,658)</b>	<b>156,478</b>	<b>(3,361,116)</b>
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	373,411	1,228,600	909,570	2,766,752
<b>OPERATING LOSS</b>	<b>(306,191)</b>	<b>(4,014,258)</b>	<b>(753,092)</b>	<b>(6,127,868)</b>
<b>OTHER INCOME (EXPENSE):</b>				
Interest income	5,242	21,525	7,086	39,262
Interest expense	(181)	(341)	(210)	(1,071)
Gain on sales of fixed assets	-	4,527	-	545,861
Other income (expense)	34,006	(12,361)	334,006	(19,957)
<b>Total Other Income (Expense), net</b>	<b>39,067</b>	<b>13,350</b>	<b>340,882</b>	<b>564,095</b>
<b>LOSS BEFORE INCOME TAXES</b>	<b>(267,124)</b>	<b>(4,000,908)</b>	<b>(412,210)</b>	<b>(5,563,773)</b>
INCOME TAX PROVISION (BENEFIT)	-	-	-	-
<b>NET LOSS</b>	<b>\$ (267,124)</b>	<b>\$ (4,000,908)</b>	<b>\$ (412,210)</b>	<b>\$ (5,563,773)</b>

THE KELLER MANUFACTURING COMPANY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE AND THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	(Unaudited)		(Unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net Loss	\$ (267,124)	\$ (4,000,908)	\$ (412,210)	\$ (5,563,773)
<b>Adjustments to reconcile net loss to net cash provided by (used in) operating activities:</b>				
Depreciation	450	220,000	900	460,000
(Gain) Loss on fixed asset disposals	-	(4,527)	-	(545,861)
Increases (decreases) to inventory reserve	55,994	1,168,936	(244,006)	1,168,936
Compensation for stock options granted	30,711	48,999	61,422	97,998
<b>Changes in Assets and Liabilities:</b>				
Accounts receivable	444,768	364,501	496,048	225,778
Inventory	452,309	1,224,581	1,504,699	1,595,024
Income taxes refundable / payable	-	(5,000)	-	(6,000)
Other current assets	-	(38,488)	-	(20,251)
Prepaid pension costs / accrued pension liability	-	35,000	-	65,000
Accounts payable	34,053	(28,552)	(594,421)	(183,974)
Accrued commissions, salaries & withholdings & accrued vacation	(7,904)	(75,162)	(7,504)	(40,136)
Allowance for sales returns	(20,000)	-	(50,000)	(19,081)
Accrued health, life & workers compensation insurance	(3,524)	(13,232)	(34,909)	37,975
Other liabilities	809	(57,920)	(118,954)	(63,228)
<b>Total Adjustments</b>	<b>987,666</b>	<b>2,839,136</b>	<b>1,013,275</b>	<b>2,772,180</b>
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>720,542</b>	<b>(1,161,772)</b>	<b>601,065</b>	<b>(2,791,593)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchases of property, plant & equipment	-	(162,075)	-	(731,435)
Proceeds from sales of property, plant & equipment	-	573,754	-	1,575,971
Purchase of investments available for sale	(1,345,000)	(248,752)	(1,345,000)	(1,745,163)
Proceeds from disposal of investments available for sale	-	2,250,000	-	4,250,000
<b>Net Cash Provided By (Used In) Investing Activities</b>	<b>(1,345,000)</b>	<b>2,412,927</b>	<b>(1,345,000)</b>	<b>3,349,373</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Redemptions of common stock	-	(1,231,794)	-	(1,231,794)
<b>Net Cash Used In Financing Activities</b>	<b>-</b>	<b>(1,231,794)</b>	<b>-</b>	<b>(1,231,794)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(624,458)</b>	<b>19,361</b>	<b>(743,935)</b>	<b>(674,014)</b>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	974,257	1,955,443	1,093,734	2,648,818
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 349,799</b>	<b>\$ 1,974,804</b>	<b>\$ 349,799</b>	<b>\$ 1,974,804</b>