KEITHLEY INSTRUMENTS INC
Form 10-Q
August 10, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q
þ **Quarterly Report Pursuant to Section 13 or 15(d)**
of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2009
Commission File Number 1-9965
KEITHLEY INSTRUMENTS, INC.
(Exact name of registrant as specified in its charter)

Ohio	**34-0794417**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

28775 Aurora Road, Solon, Ohio 44139
(Address of principal executive offices) (Zip Code)
Registrant s telephone number, including area code: (440) 248-0400

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES þ **NO** o

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files)

YES þ **NO** o

Indicate by check whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	**Accelerated filer þ**	**Non-accelerated filer** o **(Do not check if smaller reporting company.)**	**Smaller reporting company** o

Indicate by check whether the Registrant is a shell Company (as defined in Rule 12b-2 of the Exchange Act).

YES o **NO** þ

As of August 6, 2009 there were outstanding 13,572,445 Common Shares (net of shares repurchased and held in treasury), without par value, and 2,150,502 Class B Common Shares, without par value.

Forward-Looking Statements

Statements and information included in this Quarter Report on Form 10-Q that are not purely historical are forward-looking statements intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements in this Report on Form 10-Q include statements regarding Keithley s expectations, intentions, beliefs, and strategies regarding the future, including recent trends, cyclicality, growth in the markets Keithley sells into, conditions of the electronics industry and the economy in general, expected cost savings from recent cost-cutting actions, deployment of our own sales employees throughout the world, investments to develop new products, the potential impact of adopting new accounting pronouncements, our future effective tax rate, liquidity position, ability to generate cash, expected growth, and obligations under our retirement benefit plans.

When used in this report, the words believes, expects, anticipates, intends, assumes, estimates, evaluates, forecasts, may, could, future, forward, potential, probable, and similar expressions are intended to identify forward-looking statements.

These forward-looking statements involve risks and uncertainties. We may make other forward-looking statements from time to time, including in press releases and public conference calls and webcasts. All forward-looking statements made by Keithley are based on information available to us at the time the statements are made, and we assume no obligation to update any forward-looking statements. It is important to note that the forward looking statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from those included in such forward-looking statements. Some of these risks and uncertainties are discussed in our Securities and Exchange Commissions reports, including but not limited to our Form 10-K for the fiscal year ended September 30, 2008.

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements.

KEITHLEY INSTRUMENTS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands of Dollars)
(Unaudited)

	June 30, 2009	September 30, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 25,542	$ 22,073
Restricted cash	558	
Short-term investments	868	5,700
Accounts receivable and other, net	10,926	17,265
Inventories	10,389	19,823
Deferred income taxes	559	5,483
Prepaid expenses	1,761	2,079
Total current assets	50,603	72,423
Property, plant and equipment, at cost	54,633	54,326
Less-Accumulated depreciation	43,049	41,174
Property, plant and equipment, net	11,584	13,152
Deferred income taxes	996	26,097
Intangible assets	980	1,190
Prepaid pension assets	6,066	14,042
Other assets	4,002	11,074
Total assets	$ 74,231	$ 137,978
Liabilities and Shareholders Equity		
Current liabilities:		
Short-term debt	$ 199	$ 23
Accounts payable	3,997	7,325
Accrued payroll and related expenses	4,009	7,073
Other accrued expenses	4,968	6,142
Income taxes payable	1,039	1,174
Total current liabilities	14,212	21,737
Long-term deferred compensation	1,950	2,561
Deferred income taxes	69	65
Long-term income taxes payable	2,737	2,919
Pension liability	16,889	6,626
Other long-term liabilities	791	768

Shareholders equity:				
Common Shares, stated value $.0125:				
Authorized 80,000,000; issued and outstanding 14,911,117 at June 30, 2009 and 14,722,585 at September 30, 2008		186		184
Class B Common Shares, stated value $.0125:				
Authorized 9,000,000; issued and outstanding 2,150,502 at June 30, 2009 and September 30, 2008		27		27
Capital in excess of stated value		38,741		38,930
Retained earnings		33,263		80,759
Accumulated other comprehensive loss		(19,234)		(1,873)
Common shares held in treasury, at cost		(15,400)		(14,725)
Total shareholders equity		37,583		103,302
Total liabilities and shareholders equity	$	74,231	$	137,978

The accompanying notes are an integral part of these financial statements.

KEITHLEY INSTRUMENTS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands of Dollars Except for Per Share Data)
(Unaudited)

	For the Three Months Ended June 30, 2009	For the Three Months Ended June 30, 2008	For the Nine Months Ended June 30, 2009	For the Nine Months Ended June 30, 2008
Net sales	$ 23,438	$ 40,955	$ 78,469	$ 119,331
Cost of goods sold	10,953	17,191	34,657	48,588
Inventory write-off and accelerated depreciation for discontinued product line			2,540	
Gross profit	12,485	23,764	41,272	70,743
Selling, general and administrative expenses	11,678	17,441	37,952	49,869
Product development expenses	3,655	6,771	14,341	19,212
Restructuring and other charges (See Note O)			4,202	
Operating (loss) income	(2,848)	(448)	(15,223)	1,662
Investment income	42	338	274	1,321
Interest expense	(19)	(15)	(47)	(53)
Impairment of long-term investments				(670)
(Loss) income before income taxes	(2,825)	(125)	(14,996)	2,260
Income tax provision (benefit)	601	(86)	31,068	225
Net (loss) income	$ (3,426)	$ (39)	$ (46,064)	$ 2,035
Basic (loss) earnings per share	$ (0.22)	$ (0.00)	$ (2.95)	$ 0.13
Diluted (loss) earnings per share	$ (0.22)	$ (0.00)	$ (2.95)	$ 0.13
Cash dividends per Common Share	$ .0125	$ .0375	$ .0875	$ .1125

Cash dividends per Class B Common Share	$	.01	$	.03	$	.07	$	.09

The accompanying notes are an integral part of these financial statements.

KEITHLEY INSTRUMENTS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of Dollars)
(Unaudited)

	For the Nine Months Ended June 30, 2009	2008
Cash flows from operating activities:		
Net (loss) income	$ (46,064)	$ 2,035
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation	2,642	3,007
Stock-based compensation	(303)	2,075
Non-cash restructuring charges and inventory write-down	4,498	
Loss on the disposition/impairment of assets	92	746
Deferred income taxes	29,982	(1,926)
Other items not affecting outlay of cash	158	120
Changes in working capital	3,947	(7,391)
Other operating activities	623	(808)
Net cash used in operating activities	(4,425)	(2,142)
Cash flows from investing activities:		
Payments for property, plant and equipment	(1,544)	(2,768)
Restricted cash	(558)	
Purchase of short-term investments	(868)	(13,225)
Sale of short-term investments	12,500	31,586
Net cash provided by investing activities	9,530	15,593
Cash flows from financing activities:		
Net borrowing (payment) of short term debt	174	(606)
Cash dividends	(1,330)	(1,734)
Purchase of treasury shares	(787)	(4,700)
Proceeds from stock purchase and option plans	136	153
Excess tax benefits from stock-based compensation arrangements	92	81
Net cash used in financing activities	(1,715)	(6,806)
Effect of exchange rate changes on cash	79	623
Increase in cash and cash equivalents	3,469	7,268
Cash and cash equivalents at beginning of period	22,073	12,888
Cash and cash equivalents at end of period	$ 25,542	$ 20,156

The accompanying notes are an integral part of these financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of dollars, except for share data)

A. Nature of Operations

Keithley s business is to design, develop, manufacture and market complex electronic instruments and systems to serve the specialized needs of electronics manufacturers for high-performance production testing, process monitoring, product development and research. Our primary products are integrated systems used to source, measure, connect, control or communicate electrical direct current (DC), radio frequency (RF) or optical signals. Although our products vary in capability, sophistication, use, size and price, they generally test, measure and analyze electrical, RF, optical or physical properties. As such, we consider our business to be in a single industry segment.

B. Summary of Significant Accounting Policies

Basis of Presentation

The condensed consolidated financial statements at June 30, 2009 and 2008, and for the three and nine month periods then ended have not been audited by an independent registered public accounting firm, but in the opinion of our management, all adjustments necessary to fairly present the condensed consolidated balance sheets, condensed consolidated statements of operations and condensed consolidated statements of cash flows for those periods have been included. All adjustments included are of a normal recurring nature. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The Company s consolidated financial statements for the three and nine month periods ended June 30, 2009 and 2008 included in this Form 10-Q report have been prepared in accordance with the accounting policies described in the Notes to Consolidated Financial Statements for the year ended September 30, 2008, which were included in the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2008 filed on December 15, 2008 (the 2008 Form 10-K). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These financial statements should be read in conjunction with the financial statements and the notes thereto included in the 2008 Form 10-K.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reported financial statements and the reported amounts of revenues and expenses during the reporting periods. Examples include the allowance for doubtful accounts, estimates of contingent liabilities, inventory valuation, pension plan assumptions, estimates and assumptions relating to stock-based compensation costs, the assessment of the valuation of deferred income taxes and income tax reserves, and estimates and assumptions relating to the value of long-term investments. Actual results could differ materially from those estimates.

Inventory

Inventory is comprised of the following:

	June 30, 2009	September 30, 2008
Raw materials	$ 5,627	$ 12,325
Work in process	793	1,261
Finished products	3,969	6,237
Total inventories	$ 10,389	$ 19,823

Reclassifications

Certain reclassifications have been made to prior years financial statements and the notes to conform to the current year presentation.

C. Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement is applicable to other accounting pronouncements that require or permit fair value measurements. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. However, the FASB provided a one-year deferral for the implementation of SFAS No. 157 for nonfinancial assets and liabilities. The Company adopted SFAS No. 157 effective October 1, 2008, except with respect to nonfinancial assets and liabilities, and the statement did not have a material impact on our consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R) (SFAS No. 158). SFAS No. 158 represents the completion of the first phase in the FASB s postretirement benefits accounting project and requires an employer that is a business entity and sponsors one or more single employer benefit plans to (1) recognize the over funded or under funded status of the benefit plan in its statement of financial position, (2) recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs of credits that arise during the period but are not recognized as components of net periodic benefit cost, (3) measure defined benefit plan assets and obligations as of the end of the employer s fiscal year, and (4) disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation. The provisions of SFAS No. 158 were effective as of September 30, 2007, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. Effective September 30, 2009, the Company will change its measurement date to September 30th and does not expect that the change in measurement date provision of this Statement will have a material impact on its consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standard No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FAS 115 (SFAS No. 159). SFAS No. 159 allows companies to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. Unrealized gains and losses shall be reported on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company adopted SFAS No. 159 effective October 1, 2008, and the statement did not have a material impact on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures About Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (SFAS No. 161). SFAS No. 161 requires, among other things, enhanced disclosure about the volume and nature of derivative and hedging activities and a tabular summary showing the fair value of derivative instruments included in the statement of financial position and statement of operations. SFAS 161 also requires expanded disclosure of contingencies included in derivative instruments related to credit risk. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Company adopted SFAS No. 161 effective January 1, 2009, and the statement did not have a material impact on our consolidated financial statements.

In April 2009, the FASB issued FASB Staff Position (FSP) FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. (FSP FAS 157-4), which provides additional guidance in accordance with FASB No. 157, Fair Value Measurements, when the volume and level of activity for the asset or liability has significantly decreased. FSP FAS 157-4 became effective for us on April 1, 2009 and the adoption did not have an impact on our financial statements.

In April 2009, the FASB issued FASB Staff Position FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS 115-2 and FAS 124-2). This FSP amends the other-than-temporary impairment guidance in U.S. generally accepted accounting principles (GAAP) for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in a company s financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. FSP FAS 115-2 and FAS 124-2 became effective for us on April 1, 2009 and the adoption did not have an impact on our financial statements.

In April 2009, the FASB issued FASB Staff Position FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 enhance consistency in financial reporting by increasing the frequency of fair value disclosures. This FSP relates to fair value disclosures for any financial instruments that are not currently reflected in a company s balance sheet at fair value. Prior to the effective date of this FSP, fair values for these assets and liabilities were only disclosed once a year. This FSP will now require these disclosures to be made on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. FSP FAS 107-1 and APB 28-1 became effective for us on April 1, 2009 and we have included the additional disclosure information required by FSP FAS 107-1 and APB 28-1 within Note M Investments and Notes Receivable of the Notes to the condensed consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events (SFAS No. 165), to be effective for interim or annual financial periods ending after June 15, 2009. SFAS 165 does not materially change the existing guidance but introduces the concept of financial statements being available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether the date represents the date the financial statements were issued or were available to be issued . This disclosure is intended to alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. SFAS No. 165 became effective for us on April 1, 2009 and the adoption did not have an impact on our financial statements. We have evaluated subsequent events through August 10, 2009, which is the date of our Form 10-Q filing.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS No. 167), which amends the consolidation guidance applicable to variable interest entities under FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities. SFAS No. 167 is intended to improve financial reporting by enterprises involved with variable interest entities. This guidance is effective as of the beginning of the first fiscal year that begins after November 15, 2009, which is October 1, 2010 for us. We do not believe the adoption of this Standard will have a material effect on our financial statements.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (SFAS No. 168), which amends SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. SFAS No. 168 will become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date, SFAS No. 168 will supersede all then-existing non-SEC accounting and reporting standards. SFAS No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. As SFAS No. 168 is not intended to change or alter existing GAAP, it will not impact the Company s results of operations, cash flows or financial positions. We will adjust historical GAAP references in our Annual Report on Form 10-K to reflect accounting guidance references included in the codification.

D. Earnings Per Share

Both Common Shares and Class B Common Shares are included in calculating earnings per share. The weighted average number of shares outstanding used in the calculation for the relevant periods is set forth below:

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2009	2008	2009	2008
Net (loss) income	$ (3,426)	$ (39)	$ (46,064)	$ 2,035
Weighted averages shares outstanding	15,648,996	15,772,488	15,625,851	15,899,263
Dilutive effect of stock awards				206,252
Assumed purchase of stock under stock purchase plan				760
Weighted average shares used for dilutive earnings per share	15,648,996	15,772,488	15,625,851	16,106,275
Basic (loss) earnings per share	$ (0.22)	$ (0.00)	$ (2.95)	$ 0.13
Diluted (loss) earnings per share	$ (0.22)	$ (0.00)	$ (2.95)	$ 0.13

Due to the net loss for the three months ended June 30, 2009 and 2008, 34,608 and 255,366 shares were excluded from the dilutive calculation from stock awards and the stock purchase plan, respectively. For the nine months ended June 30, 2009, 22,766 shares were excluded.

E. Stock-based Compensation

In December 2008, the Company s Board of Directors approved the Keithley Instruments, Inc. 2009 Stock Incentive Plan (the 2009 Stock Plan), and the Company s shareholders approved it on February 7, 2009. No awards have been granted from the 2009 Stock Plan as of June 30, 2009. The Company has three other equity-based compensation plans that have options currently outstanding, one of which may still be used to grant stock-based compensation awards to employees and Directors. No new awards may be granted from the two other plans as they have been terminated or have expired. The Company also has an employee stock purchase plan (ESPP) that provides employees with the opportunity to purchase Common Shares at 95 percent of the fair market value at the end of the one-year subscription period. The provisions of the ESPP are such that measurement of compensation expense is not required by SFAS No. 123(R) Share-Based Payments. Additionally, no shares were issued pursuant to the ESPP during the first nine months of fiscal year 2009 or 2008.

Compensation costs recorded

Stock-based compensation expense is attributable to the granting of stock options, performance share units, restricted share units and restricted share awards. The Company records the expense using the single approach method on a straight-line basis over the requisite service period of the respective grants. The amount recorded in the nine months ended June 30, 2009 represents net compensation income, and includes favorable adjustments of approximately $950 for performance award units granted in fiscal years 2007 and 2008, which we currently expect will not vest as the performance targets are not expected to be met. The table below summarizes stock-based compensation expense (income) recorded under SFAS 123R for the three and nine-month periods ended June 30, 2009 and 2008, which was allocated as follows:

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2009	2008	2009	2008
Cost of goods sold	$ 16	$ 56	$ (73)	$ 161
Selling, general and administrative expenses	182	554	(77)	1,610
Product development expenses	35	105	(153)	304
Stock-based compensation included in operating expenses	233	715	(303)	2,075
Estimated tax impact of stock-based compensation		232		673
Stock-based compensation expense (income), net of tax	$ 233	$ 483	$ (303)	$ 1,402

Although the Company is currently in a net operating loss position in the United States, it was able to recognize an excess tax benefit of $92 during the first nine months of fiscal year 2009 due to a 2008 tax return provision adjustment. The excess tax benefits recognized during the first nine months of fiscal year 2008 was approximately $81.

As of June 30, 2009, there was a total of approximately $1,122 of pretax unrecognized compensation cost related to nonvested awards. That cost is expected to be recognized over a weighted-average period of 2.5 years.

Stock option activity

During the first nine months of fiscal 2009, the Company granted 309,050 non-qualified stock options with a weighted average exercise price of $3.05 to officers and other key employees. During the first nine months of fiscal year 2008, the Company granted non-qualified stock options to purchase 146,125 shares at a weighted average exercise price of $9.13 per share. The exercise price of the options granted in both years is equal to the fair market value on their respective grant date. The options have a term of ten years, vest 50 percent after two years, and an additional 25 percent each after years three and four.

The fair value of the options granted during the first nine months of fiscal year 2009 and 2008 was $1.08 and $3.01 per share, respectively. The fair values were determined using the Black-Scholes option-pricing model. The following assumptions were applied for options granted during these periods:

	Nine Months Fiscal 2009	Nine Months Fiscal 2008
Expected life (years)	4.75	4.75
Risk-free interest rate	1.90%	3.84%
Volatility	49%	38%

Dividend yield	2.50%	1.64%

Performance award units

No performance award units were granted during the first nine months of fiscal year 2009, and instead officers and other key employees received non-qualified stock options and restricted award units. During the first nine months of fiscal year 2008, the Company granted 172,475 performance award units to officers and other key employees with a weighted-average fair market value per unit on the respective grant dates of $9.13. The performance award unit agreements granted during the prior fiscal year provide for the award of performance units with each unit representing the right to receive one of the Company s Common Shares to be issued after the applicable award period. The award period for performance award units issued in fiscal year 2008 will end on September 30, 2010. The final number of units earned pursuant to an award may range from a minimum of no units to a maximum of twice the initial award. The awards currently outstanding may be adjusted in 25 percent increments. The number of units earned will be based on the Company s revenue growth relative to a defined peer group, and the Company s return on assets or return on invested capital during the applicable performance period as defined in the performance award unit agreements.

Each reporting period, the compensation cost of the performance award units is subject to adjustment based upon our estimate of the number of awards we expect will be issued upon the completion of the performance period. The performance criteria related to the awards granted in fiscal year 2008 are not expected to be met and none of these awards are expected to vest, therefore all previously recorded expense for these awards was reversed during the second quarter of fiscal year 2009. Previously these awards were being expensed at 50 percent of target. The expense related to the awards granted during fiscal year 2007 was reversed during the first quarter of fiscal year 2009, as the performance criteria related to these awards is also not expected to be met.

Restricted award units

During the first nine months of fiscal year 2009, the Company granted 125,800 restricted award units to officers and key employees. The awards have a fair market value per unit of $2.99 based upon the fair value of the Company s stock on the award date. During the first nine months of fiscal year 2008, the Company granted 20,225 restricted award units to key employees other than officers. The awards have a weighted average fair market value per unit of $9.15 based upon the fair value of the Company s stock on the award dates. The restricted unit award agreements provide for the award of restricted units with each unit representing one share of the Company s Common Shares. Generally, the awards vest on the fourth anniversary of the award date, subject to certain conditions specified in the agreement.

Directors equity plans

Prior to fiscal year 2009, each non-employee Director had received an annual Common Share grant equal to $58. As a result of the Company s low stock price, in December 2008, the Company s Compensation and Human Resources Committee of the Board of Directors determined that it should limit the number of Common Shares to be issued to each non-employee Director with respect to his or her annual Common Share grant to 3,000 shares per quarter. This limits the dilution to shareholders and will have the effect of lowering the non-employee Directors total compensation if the Common Share price is below $4.83 per share. The Common Shares are to be issued out of the Keithley Instruments, Inc. 2002 Stock Incentive Plan. During the first nine months of fiscal year 2009, 84,045 shares were issued at a weighted average price of $3.48 per share for a total expense of $292. During the first nine months of fiscal year 2008, 39,348 shares were issued at a weighted average fair market value per share of $9.95 per share for a total expense of $391.

The Board of Directors also may issue restricted stock grants worth $75 to a new non-employee Director at the time of his or her election. These restricted stock grants vest over a 3-year period. There have been no such grants issued since February 2006.

F. Repurchase of Common Shares

In February 2007, the Company announced its Board of Directors had approved an open market stock repurchase program (the 2007 Program). Prior to its expiration on February 28, 2009, the 2007 Program allowed the Company to purchase up to 2,000,000 Common Shares, which represented approximately 12 percent of its total outstanding Common Shares at the start of the 2007 Program. A total of 942,600 shares at an average price $8.97 per share including commissions were repurchased through the life of the 2007 Program. The purpose of the 2007 Program was to offset the dilutive effect of stock option and stock purchase plans, and to provide value to shareholders. Common Shares held in treasury may be reissued in settlement of stock purchases under the stock option and stock purchase plans.

No shares were purchased during the third quarter of fiscal year 2009, as the 2007 Program expired and was not replaced. During the first half of fiscal year 2009, the Company purchased 166,733 Common Shares for $787 at an average cost of $4.72 per share including commissions. This includes 11,733 Common Shares withheld for payroll taxes upon the issuance of Common Shares for vested performance award units in November 2008. During the first nine months of fiscal year 2008, the Company purchased 482,300 Common Shares for $4,700 at an average cost per share of $9.74 including commissions. At June 30, 2009 and 2008, 1,377,648 and 1,056,615 Common Shares remained in treasury at an average cost, including commissions, of $9.94 and $10.84, respectively.

Also, included in the Common shares held in treasury, at cost caption of the condensed consolidated balance sheets are shares repurchased to settle non-employee Directors fees deferred pursuant to the Keithley Instruments, Inc. 1996 Outside Directors Deferred Stock Plan. Shares held in treasury pursuant to this plan totaled 210,039 and 183,588 at

June 30, 2009 and 2008, respectively.

G. Financing Arrangements

Effective March 31, 2009, the Company amended its $10,000 credit agreement. The revised agreement consists of a $5,000 facility ($199 of short-term debt and $359 of standby letters of credit outstanding at June 30, 2009) that provides unsecured, multi-currency revolving credit at various interest rates based on Prime or LIBOR. The agreement no longer contains debt covenants, but requires cash to be pledged against outstanding borrowings. The expiration date of March 31, 2011 remains unchanged. The Company is required to pay a facility fee of 0.25% per annum on the total amount of the commitment. The agreement may be extended annually. Additionally, per the terms of the agreement, the Company may borrow up to $5,000 from other lenders. The Company has a number of other such credit facilities in various currencies and for standby letters of credit aggregating $1,493 ($0 outstanding at June 30, 2009). At June 30, 2009, the Company had total unused lines of credit with domestic and foreign banks aggregating $5,935, which was a combination of long-term and short-term depending upon the nature of the indebtedness.

H. Accounting for Derivatives and Hedging Activities

In the normal course of business, the Company uses derivative financial instruments to manage foreign currency exchange rate risk. The Company does not enter into derivative transactions for trading purposes. The objective of the Company s hedging strategy is to hedge the foreign currency risk associated with the anticipated sale of inventory and the settlement of the related intercompany accounts receivable. The forward contracts are designated as cash flow hedges that encompass the variability of U.S. dollar cash flows attributable to the settlement of intercompany foreign currency denominated receivables resulting from the sale of inventory manufactured in the U.S. to our wholly-owned foreign subsidiaries. The foreign exchange forward contracts generally have maturities of three months or less. Changes in the fair value of these derivatives are recorded in the financial statement line item Accumulated other comprehensive loss on the condensed consolidated balance sheets and reclassified into the financial statement line item Cost of goods sold on the condensed consolidated statements of operations in the same period during which the hedged transaction affects earnings. Cash flows resulting from hedging transactions are classified in the condensed consolidated statements of cash flows in the same category as the cash flows from the item being hedged; i.e., in operating activities. In accordance with the provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (as amended), all of the Company s derivative instruments are recognized on the balance sheet at their fair value. At June 30, 2009, the Company had obligations under foreign exchange forward contracts to sell 1,875,000 Euros, 225,000 British pounds and 150,000,000 Yen at various dates through September 2009.

At June 30, 2009 and September 30, 2008, the fair values of the derivative instruments are recorded on the condensed consolidated balance sheets as follows.

	June 30, 2009	September 30, 2008
Assets:		
Contract value	$ 1,193	$ 3,739
Fair value	1,186	3,499
Total asset	7	240