

KEITHLEY INSTRUMENTS INC
Form 10-Q
May 15, 2001

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements.

CONSOLIDATED BALANCE SHEET

CONSOLIDATED STATEMENT OF INCOME

CONSOLIDATED STATEMENT OF CASH FLOWS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

Item 4. Submission of Matters to a Vote of Security Holders.

Item 6. Exhibits and Reports on Form 8-K.

SIGNATURES

Exhibit 3(C)

Exhibit 10(L)

Exhibit 11

Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934**

For the quarterly period ended March 31, 2001

OR

**Transition Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934**

Commission File Number 1-9965

KEITHLEY INSTRUMENTS, INC.

(Exact name of registrant as specified in its charter)

Ohio
(State or other jurisdiction of

34-0794417
(I.R.S. Employer

Edgar Filing: KEITHLEY INSTRUMENTS INC - Form 10-Q

incorporation or organization)

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 NO

As of May 8, 2001 the Registrant had outstanding 13,636,158 Common Shares, without par value, and 2,150,502 Class B Common Shares, without par value.

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements.

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

	<u>March 31,</u> <u>2001</u>	<u>2000</u>	<u>September</u> <u>30,</u> <u>2000</u>
Assets			
Current assets:Cash and cash equivalents	\$33,248	\$14,246	\$21,408
Accounts receivable and other, net	29,976	22,556	30,621
Inventories:Raw materials	13,569	7,971	11,376
Work in process	4,898	6,399	5,685
Finished products	2,987	2,525	3,083
<hr/>			
Total			
inventories	21,454	16,895	20,144
Deferred income taxes	17,209	2,943	13,935
Prepaid			

Edgar Filing: KEITHLEY INSTRUMENTS INC - Form 10-Q

expenses 1,029,591,506

Total current

assets 102,916,572,231,86,614

Property, plant and equipment, at
cost 41,457,394,943,809 Less-Accumulated
depreciation 27,722,264,872,6,590

Total property, plant and
equipment, net 13,735,13,007,13,219

Deferred income

taxes 5,485,6,719,5,987 Other
assets 7,901,6,679,6,518

Total

assets \$130,037,83,636,112,338

Liabilities and Shareholders

Equity Current

liabilities: Short-term
debt \$ 147,225 Accounts
payable 10,143,9,560,9,321 Accrued
payroll and related
expenses 5,854,5,822,9,041 Other
accrued
expenses 7,085,6,656,6,152 Income
taxes payable 6,228,3,375,4,096

Total current

liabilities 29,310,25,560,28,835

Long-term

debt 3,000,3,000,3,000 Other

long-term

liabilities 5,162,4,874,4,723 Deferred
income taxes 767 Shareholders

Edgar Filing: KEITHLEY INSTRUMENTS INC - Form 10-Q

equity:Paid-in-capital22,8348,51717,359Earnings
 reinvested in the
 business73,22650,31662,211Accumulated
 other comprehensive
 income(960)(425)(819)Unamortized
 portion of restricted
 stock(174)(217)(196)Common
 shares held in treasury, at
 cost(2,368)(8,056)(2,782)

 Total shareholders
 equity92,55850,13575,773

 Total liabilities and shareholders
 equity\$130,037\$83,636\$112,338

Table of Contents

KEITHLEY INSTRUMENTS, INC.
 CONSOLIDATED STATEMENT OF INCOME
 (In Thousands of Dollars Except for Per Share Data)
 (Unaudited)

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2001	2000	2001	2000
Net sales	\$43,168	\$37,271	\$87,676	\$67,031
Cost of goods sold16,82614,46033,36026,220Selling, general and administrative expenses14,63012,41128,06422,750Product development expenses4,0822,9237,9655,751Gain on sale of business (477)Net financing income(334)(47)(631)(137)				
Income before income taxes7,9647,52418,91812,924Income				

taxes 2,852,698,905,588

Net

income \$5,112,482,612,013,836

Basic earnings per

share \$0.32 \$0.33 \$0.77 \$0.58

Diluted earnings per

share \$0.31 \$0.30 \$0.72 \$0.53

Cash dividends per Common Share \$

.0375 \$.0275 \$.065 \$.048

Cash dividends per Class B Common

Share \$.030 \$.022 \$.052 \$.0384

Table of Contents

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

Edgar Filing: KEITHLEY INSTRUMENTS INC - Form 10-Q

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2001	2000	2001	2000
Cash flows from operating activities:				
Net income	\$5,112	\$4,826	\$12,013	\$8,336
Expenses not requiring outlay of cash	685	1,074	1,638	1,906
Gain on sale of business	(477)			
Changes in working capital	(758)	(4,852)	1,064	(6,431)
Other operating activities	(159)	930	(79)	1,110
<hr/>				
<hr/>				
<hr/>				
<hr/>				
Net cash provided by operating activities	4,880	1,978	14,636	4,444
<hr/>				
<hr/>				
<hr/>				
<hr/>				
Cash flows from investing activities:				
Payments for property, plant, and equipment	(1,536)	(1,505)	(2,314)	(2,051)
Other investing activities-net	(34)	3		
<hr/>				
<hr/>				
<hr/>				
<hr/>				
Net cash used in investing activities	(1,536)	(1,539)	(2,314)	(2,048)
<hr/>				
<hr/>				
<hr/>				
<hr/>				
Cash flows from financing activities:				
Net increase (decrease) in short term debt	(364)	(222)	151	
Cash dividends	(580)	(375)	(998)	(642)
Repurchase of treasury stock	(1,639)	(1,639)	(3,013)	
Other transactions-net	1,639	1,587	2,343	2,189
<hr/>				
<hr/>				
<hr/>				
<hr/>				
Net cash provided by (used in) financing activities	(580)	848	(516)	(1,315)
<hr/>				
<hr/>				
<hr/>				
<hr/>				
Effect of exchange rate changes on cash	(261)	(138)	34	(261)

Increase in cash and cash equivalents 2,503 1,149 11,840 820
 Cash and cash equivalents at beginning of period 30,745 13,097 21,408 13,426

Cash and cash equivalents at end of period \$33,248 \$14,246 \$33,248 \$14,246

Supplemental disclosures of cash flow information
 Cash paid during the period for: Income taxes \$1,757 \$1,858 \$2,997 \$2,588 Interest 331 303 8

Disclosure of accounting policy

For purposes of this statement, the Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Table of Contents

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (In thousands of dollars, except per share data)**

A. Management Representation

The consolidated financial statements at March 31, 2001 and 2000 and for the three month periods then ended have not been examined by independent accountants, but in the opinion of the management of Keithley Instruments, Inc., all adjustments necessary to a fair statement of the consolidated balance sheet, consolidated statement of income and consolidated statement of cash flows for those periods have been included. All adjustments included are of a normal, recurring nature.

B. Earnings per share denominator

The weighted average number of shares and share equivalents used in determining basic earnings per share and diluted earnings per share was 15,812,575 and 16,599,484 for the quarter ended March 31, 2001, respectively, and 14,345,858 and 15,831,216 for the quarter ended March 31, 2000, respectively. The weighted average number of shares and share equivalents used to determine basic earnings per share and diluted earnings per share was 15,700,595 and 16,579,581, for the six months ended March 31, 2001, respectively, and 14,292,086 and 15,677,450 for the six months ended March 31, 2000, respectively. Both Common Shares and Class B Common Shares are included in calculating the weighted average number of shares outstanding.

C. Sale of assets

During the first quarter of fiscal 2000, the Company recorded an additional adjustment to the gain on previously disposed businesses of \$477 pretax, or \$0.02 per share after taxes. At the time of the sales of the businesses, the Company established liabilities for certain items that were to be settled at future dates. The additional adjustment represents the settlement of certain of these issues.

D. Stock repurchase programs

On December 11, 2000, the Company announced its Board of Directors had approved an open market stock repurchase program to replace the existing program, which expired in December 2000. Under the new program, the Company may purchase up to 2,000,000 Common Shares, or approximately 13 percent of the then outstanding shares, over a three-year period. The purpose of the repurchase program is to offset the dilutive effect of stock option and stock purchase plans. Common Shares held in treasury may be reissued in settlement of awards granted and stock purchased under these plans.

During the second quarter of fiscal 2001, the Company repurchased 105,000 Common Shares at an average cost of \$15.61 per share including commissions. During the second quarter of fiscal 2000, the Company did not buyback any shares. At March 31, 2001, 105,000 Common Shares purchased under the Company's share repurchase programs remained in treasury at an average cost of \$15.61 per share including commissions. Also, included in the Common shares held in treasury, at cost caption of the Consolidated Balance Sheets are shares repurchased to settle non-employee Directors' fees deferred pursuant to the Keithley

5

Table of Contents

Instruments, Inc. 1996 Outside Directors Deferred Stock Plan. The total number of shares held in treasury at March 31, 2001 was 223,525.

E. Accounting for Derivatives and Hedging Activities

The Company adopted Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133) on October 1, 2000. The transition amount recorded upon adoption of SFAS 133 was not material to the consolidated financial results or financial position of the Company.

In accordance with the provisions of SFAS 133, all of the Company's derivative instruments are recognized on the balance sheet at their fair value. To hedge sales, the Company currently utilizes foreign exchange forward contracts or option contracts to sell foreign currencies to fix the exchange rates related to near-term sales and effectively fix the Company's margins. Underlying hedged transactions are recorded at hedged rates, therefore realized and unrealized gains and losses are recorded when the operating revenues and expenses are recorded. The Company also currently utilizes an interest rate swap instrument to mitigate the risk of interest rate changes. The estimated fair value of the swap instrument is determined through quotes from the related financial institutions.

On the date the derivative contract is entered into, the Company designates its derivative as either a hedge of the fair value of a recognized asset or liability (fair value hedge), as a hedge of the variability of cash flows to be received (cash flow hedge), or as a foreign-currency cash flow hedge (foreign currency hedge). Changes in the fair value of a derivative that is highly effective as, and that is designated and qualifies as, a fair value hedge, along with the gain or loss on the hedged asset or liability that is attributable to the hedged risk are recorded in current-period earnings. Changes in the fair value of a derivative that is highly effective and that is designed and qualifies as a cash flow hedge are recorded in other comprehensive income until earnings are affected by the transaction in the underlying asset. Changes in the fair value of derivatives that are highly effective and that

qualify as foreign currency hedges are recorded in either current period income or other comprehensive income, depending on whether the hedge transaction is a fair value hedge or a cash flow hedge. At March 31, 2001, all the Company's derivative instruments were designed as cash flow hedges.

The Company documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. The Company also assesses whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge, the Company discontinues hedge accounting prospectively.

Table of Contents

F. Comprehensive income

On October 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income (SFAS 130), which establishes rules for reporting comprehensive income and its components. The adoption of SFAS 130 did not impact the Company's net income or total shareholders' equity. Comprehensive income for the three and six month periods ended March 31, 2001 and 2000 is as follows:

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2001	2000	2001	2000
Net income	\$5,112	\$4,826	\$12,013	\$8,336
Unrealized gains on value of derivative securities	226	14		
Foreign currency translation adjustments	(614)	(250)	(155)	(537)
<hr/>				
<hr/>				
<hr/>				
<hr/>				
Comprehensive income	\$4,724	\$4,576	\$11,872	\$7,799
<hr/>				
<hr/>				
<hr/>				
<hr/>				

G. Segment and Geographic Information

The Company's business is to develop measurement-based solutions to verify customers' product performance. All the Company's products are computer based (multi-point) systems operating under software control. The Company's customers are engineers, technicians and scientists in manufacturing, product development and research functions within a range of industries. Keithley's advanced hardware and software is used for process monitoring, production test and basic research. Although the Company's products vary in capability, sophistication, use, size and price, they basically test, measure and analyze electrical and physical properties. As such, the Company's management determined the Company operates in a single industry segment. The operations by geographic area are presented below. The basis for attributing revenues from external customers to a geographic area is the location of the customer.

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2001	2000	2001	2000
Net sales:				
United States	\$17,600	\$16,826	\$38,625	\$33,848
Europe	14,938	12,597	27,122	21,142
Pacific Basin	8,694	6,221	16,791	19,762
Other	1,936	1,627	5,138	2,279
	\$43,168	\$37,271	\$87,676	\$67,031

Table of Contents

	At March 31,	
	2001	2000
Long-lived assets:		
United States	\$18,684	\$16,742
Germany	2,554	2,660
Other	398	284
	\$21,636	\$19,686

H. Recent Accounting Standards Changes

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements (SAB 101). SAB 101 provides guidance for public companies on the recognition, presentation and disclosure of revenue in their financial statements. It requires that an entity recognize revenue at the time a product has been accepted by a customer, as defined by certain criteria. SAB 101 is effective no later than the Company's fourth quarter of fiscal year 2001, and would have to be adopted retroactively to the beginning of the fiscal year. The Company does not believe SAB 101 will have a material impact on its consolidated results or financial position.

Table of Contents

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

(In Thousands of Dollars)

Results of Operations

Second Quarter 2001 Compared with Second Quarter 2000

Net income for the second quarter of fiscal 2001 increased six percent to \$5,112, or \$0.31 per share, from \$4,826, or \$0.30 per share, in fiscal 2000's second quarter.

Net sales of \$43,168 increased 16 percent from \$37,271 in the prior year's second quarter. This was principally due to strong sales for the Company's products serving the semiconductor and optoelectronic industries. Sales increased 5 percent in the United States, 19 percent in Europe and 41 percent in the Pacific Basin region. Sequentially, sales decreased three percent from the first quarter's record sales. Orders for the second quarter of fiscal 2001 of \$36,172 decreased 13 percent from the prior year. Geographically, orders for the second quarter were down in the United States and Pacific Basin by 16 percent and 28 percent, respectively, and flat in Europe compared to the same period a year ago. Sequentially, second quarter orders decreased 27 percent from the record first quarter. Orders from the Company's optoelectronic customers were down slightly from the record first quarter's orders. Sequentially, second quarter orders from semiconductor customers and telecommunication customers decreased 44 percent and 48 percent, respectively, from the first quarter. During the quarter, approximately \$1,700 of orders were cancelled. Additionally, approximately \$2,000 of order backlog was pushed out for shipment beyond the second quarter; however, approximately \$800 of backlog was accelerated for shipment during the second quarter resulting in net backlog push-outs of approximately \$1,200. Most of the orders cancelled and rescheduled were semiconductor related. Generally, the Company's backlog is very firm and historically this level of activity has not occurred during a quarter. Order backlog decreased \$7,990 million during the quarter to \$27,308 at March 31, 2001.

Cost of goods sold as a percentage of net sales increased slightly to 39.0 percent from 38.8 percent in the prior year's second quarter. The effect of foreign exchange hedging on cost of goods sold was immaterial in both periods.

Selling, general and administrative expenses of \$14,630 increased 18 percent to 33.9 percent of net sales from \$12,411, or 33.3 percent of net sales, in last year's second quarter. The increase was due primarily to headcount additions, increased advertising and higher commissions on higher sales.

Product development expenses of \$4,082, or 9.5 percent of net sales, increased 40 percent from \$2,923, or 7.8 percent of net sales in last year's second quarter. The majority of the increase is related to the headcount additions. The Company has added about 30 people in new product development since the second quarter last year to take advantage of the opportunities it believes exist in the optoelectronics and telecommunications areas.

Table of Contents

Net financing income increased to \$334 in the current year's second quarter from \$47 last year. The increase is due primarily to higher interest income on higher average levels of cash and cash equivalents.

The tax rate for the second quarter was 35.8 percent, approximately the same as the prior year's second quarter rate.

Six Months Ended March 31, 2001 Compared with Six Months Ended March 31, 2000

Net income for the first half of fiscal 2001 was \$12,013, or \$0.72 per share. This represents a 50 percent increase from net income of \$8,033, or \$0.51 per share, for the six months ending March 31, 2000, excluding an adjustment to a gain recorded for the previous sale of a product line. Net income as reported including the gain was \$8,336, or \$0.53 per share, in the 2000 first half.

Net sales of \$87,676 increased 31 percent from \$67,031 reported for the six month period last year. Sales were up in all major geographies with sales up 14 percent in the United States, 28 percent in Europe and 73 percent in the Pacific Basin region. Orders for the six month period were up eight percent versus the prior year. Orders from the Company's optoelectronic and semiconductor customers were up approximately 131 percent and 7 percent, respectively, while orders from telecommunications customers were down 22 percent compared to the six month period in fiscal 2000. For the first half of fiscal 2001, semiconductor orders comprised approximately one-third, optoelectronic orders accounted for about 20 percent, and telecommunications comprised approximately 10 percent of total orders. Geographically, orders were up 16 percent in the Pacific Basin, 10 percent in Europe, and essentially flat in the United States when compared to the prior year.

Cost of goods sold as a percentage of net sales decreased to 38.0 percent from 39.1 percent for the six month period last year. Favorable geographic and product mix offset the unfavorable impact of an 11 percent stronger dollar. The effect of foreign exchange hedging on cost of goods sold was immaterial in both periods.

Selling, general and administrative expenses of \$28,064 increased 23 percent from \$22,750 in the same period last year, but decreased as a percentage of net sales to 32.0 from 33.9. The majority of the increase in dollars can be attributed to higher marketing costs due to increased headcount and higher commissions on higher sales levels.

Product development expenses of \$7,965, or 9.1 percent of sales, increased 38 percent from \$5,751, or 8.6 percent of sales, in the prior year. The majority of the increase is due to the hiring of additional engineers to take advantage of the opportunities the Company believes exist in the optoelectronics and telecommunications areas.

Overall, the Company has added approximately 115 employees, a 20 percent increase, from March 31, 2000 to March 31, 2001. Significant investments have been made in the Pacific Basin by adding people in China and Taiwan and by opening a direct sales office in Korea. Of the 115 additions, approximately two-thirds of the new hires are in marketing, sales, application support and product development areas.

Table of Contents

On November 9, 1998, the Company sold certain assets used in the operation of its Quantox product line to KLA-Tencor Corporation. During the first quarter of fiscal 2000, an additional pretax gain of \$477, or \$0.02 per share after taxes, was recorded for the sale. At the time of the sale of this business, the Company established liabilities for certain items that were to be settled at future dates. The additional adjustment recorded in the first quarter of fiscal 2000 represents the settlement of certain of these issues. (See Note C.)

The Company generated net financing income during the first half of fiscal 2001 of \$631 versus \$137 in the prior year. The increase is due primarily to higher interest income on higher levels of cash and cash equivalents.

The effective tax rate for the first half of fiscal 2001 was 36.5 percent compared to 35.5 percent in last year six-month period. The Company recognized a non-recurring benefit for the adjustment of deferred tax assets in the prior year, which lowered the effective rate.

Liquidity and Capital Resources

Cash generated from operations was \$4,880 for the second quarter and \$14,636 for the six months ended March 31, 2001. Capital expenditures totaled \$1,536 and \$2,314 for the second quarter and first half of fiscal 2001, respectively, and the Company paid dividends of \$580 and \$998 for the second quarter and first half, respectively. Additionally, during the second quarter, the Company repurchased 105,000 Common Share for \$1,639 including commissions. (See Note D.) At March 31, 2001, cash and cash equivalents totaled \$33,248, an increase of \$2,503 during the quarter and \$11,840 since September 30, 2000. Debt totaled \$3,000 at March 31, 2001 and the debt-to-capital ratio was 3.1 percent.

Effective March 30, 2001, the Company entered into a new credit agreement, which expires March 30, 2004. The new agreement is a \$10,000 debt facility (\$3,000 outstanding at March 31, 2001) that provides unsecured, multi-currency revolving credit at various interest rates based on Prime or LIBOR. The Company is required to pay a facility fee of between .20% and .25% on the total amount of the commitment. Additionally, the Company has a number of other credit facilities in various currencies aggregating \$5,000.

The Company expects to finance debt service, capital spending, the stock repurchase program and working capital requirements with cash on hand and cash provided by operations. At March 31, 2001, the Company had available unused lines of credit with domestic and foreign banks aggregating \$12,000, of which \$5,000 were short term and \$7,000 were long term.

Table of Contents

Factors That May Affect Future Results

Statements included in the Liquidity and Capital Resources section of Management's Discussion and Analysis of Financial Condition and Results of Operations constitute forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. Some of the factors that may affect future results are discussed below.

The Company is subject to economic and market conditions in the United States, including the current conditions affecting the results of the Company's customers in the semiconductor, telecommunications, optoelectronics and other markets. During the latter half of the second quarter of fiscal year 2001, the Company experienced a slowdown in orders, primarily from its telecommunications and semiconductor customers. The Company's results could be adversely affected depending on the length and severity of the current downturn in these as well as the overall broadband industry. In addition, orders are cancelable by customers and consequently orders outstanding at the end of a quarter may not result in realized sales in the future. The Company may experience a decline in the sales growth rate as a result of the current economic conditions and the lack of visibility relating to future orders. In response to the current economic conditions, the Company is managing its cost structure to reduce spending where appropriate. A failure by the Company to reduce expenses in a timely manner could adversely affect the Company's future operating results. In addition, notwithstanding such cost control measures, a continuing decline in the economy that adversely affects the Company's customers would likely adversely affect the Company.

The Company's business relies on the development of new high technology products and services to provide solutions to customer's complex measurement needs. This requires anticipation of customer's changing needs and emerging technology trends. The Company must make long-term investments and commit significant resources before knowing whether its expectations will eventually result in products that achieve market acceptance. The Company incurs

significant expenses developing new products that may or may not result in significant sources of revenue and earnings in the future.

In many cases the Company's products compete directly with those offered by other manufacturers. If any of the Company's competitors were to develop products or services that are more cost-effective or technically superior, demand for the Company's product offerings could slow.

The Company's success depends to a significant degree upon the continued service of its key executive, sales, development, marketing and operational personnel. The Company also believes its future success will depend upon its ability to attract and retain additional highly skilled personnel in these areas. The competition for qualified personnel in the technology area is intense. Although management believes the Company offers competitive salaries and benefits, there can be no assurance that it will be successful in retaining its existing key personnel or attracting and retaining additional key resources. Failure to attract and retain personnel could have a material adverse effect on the Company's results of operations.

Table of Contents

The Company's products contain large volumes of electronic components and subassemblies that in some cases are supplied through sole or limited source third-party suppliers. Although the Company does not anticipate any problems procuring supplies in the near-term, there can never be any assurance that parts and supplies will be available in a timely manner and at reasonable prices. Additionally, the Company's inventory is subject to risk due to changes in market demand for particular products. The resulting excess and/or obsolete inventory could have an adverse impact on the Company's results of operations.

The Company currently has approximately 13 subsidiaries or sales offices located outside the United States, and non-U.S. sales accounted for approximately 56 percent of the Company's revenue during the first half of fiscal 2001. The Company's future results could be adversely affected by several factors, including changes in foreign currency exchange rates, changes in a country's or region's political or economic conditions, trade protection measures, import or export licensing requirements, unexpected changes in regulatory requirements and natural disasters.

The Company pays taxes in several jurisdictions throughout the world. The Company utilizes available tax credits and other tax planning strategies in an effort to minimize the Company's overall tax liability. The Company's actual tax rate for fiscal 2001 could change from what is currently anticipated due to changes in various country's tax laws or changes in the Company's overall tax planning strategy.

The Company has been notified of the commencement of purported class action litigation alleging violations of federal securities laws by the Company. While the Company believes the litigation is without merit, the Company's defense of this litigation could result in substantial costs and a diversion of management's attention and resources which could adversely affect the business, results of operations and financial condition.

The Company has modified its systems to accommodate the Euro. The cost of these modifications was immaterial to the Company's results of operations. Although difficult to predict, any competitive implications and any impact on existing financial instruments are expected to be immaterial to the Company's results of operations, financial condition or cash flows of future periods.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

On March 26, 2001, a purported class action complaint (the Complaint) was filed in the United States District Court for the Northern District of Ohio against Keithley Instruments, Inc. (Keithley or the Company) and Joseph P. Keithley, the Company's chairman, president and chief executive officer, alleging violations of Section 10(b) and Section 20(a) of the Securities Exchange Act of 1934, as amended. The purported class action was filed on behalf of all those who purchased Keithley stock between January 18, 2001 and March 9, 2001 (the Class Period). According to the plaintiffs, the Company, with the knowledge and assistance of the individual defendant, made certain false and misleading statements concerning the Company's business condition and prospects for the second quarter of fiscal 2001, the three months ending March 31, 2001, during the Class Period. The plaintiffs are seeking unspecified amounts as damages, interest costs and other ancillary relief. The Company and Mr. Keithley have been served with six additional complaints that are identical to the Complaint described above. These complaints were filed in the United States District Court for the Northern District of Ohio on March 28, 2001, March 29, 2001, March 30, 2001, April 5, 2001, April 12, 2001 and May 4, 2001. The Company will respond to all the allegations at the appropriate time.

A number of other purported class action lawsuits against the Company have been announced in the press by plaintiffs' counsel. The Company has not been served in these other lawsuits except as described above. Based on information provided in the press releases, these actions are based on allegations similar to those detailed above.

Management believes that these lawsuits are without merit, and management and the Company intend to defend them vigorously.

Item 4. Submission of Matters to a Vote of Security Holders.

On February 17, 2001, the registrant conducted its Annual Meeting of Shareholders. The following matters were brought before the shareholders for vote at this meeting:

<u>PROPOSAL</u>	<u>FOR</u>	<u>WITHHELD</u>
(a) Election of Directors:		
Joseph P. Keithley	33,789,325	116,275
Brian R. Bachman	33,790,244	115,356
Dr. Arden L. Bement, Jr.	33,790,043	115,557
James B. Griswold	33,788,123	117,478
William J. Hudson, Jr.	33,790,199	115,401
R. Elton White	33,790,198	115,402
James		

T.
 Bartlett 12,174,504 115,776 Leon
 J. Hendrix,
 Jr. 12,174,750 115,530

14

Table of Contents

	PROPOSAL	FOR	AGAINST	WITHHELD
(b)	A proposal to fix the number of Directors of the Company at nine	33,840,667	45,792	19,141
(c)	A proposal to amend the Company's Amended Articles of Incorporation to Increase the authorized number of shares of the Company's capital stock to 89,000,000 shares, designating 80,000,000 shares as Common Shares and 9,000,000 shares as Class B Common Shares 32,009,221 11,874,254 22,124			

No other matters were brought before shareholders for a vote at the meeting.

Item 6. Exhibits and Reports on Form 8-K.

(a) **Exhibits.** The following exhibits are filed herewith:

Exhibit Number	Exhibit
3(c)	Amended Articles of Incorporation, as amended on February 17, 2001.
10(l)	Credit Agreement dated as of March 30, 2001 by and among Keithley Instruments, Inc. and Subsidiary

Borrowers
and the
Lenders and
Bank One,
NA, as
agent.11
Statement Re
Computation
of Per Share
Earnings

(b) **Reports on Form 8-K.** No reports on Form 8-K were filed during the quarterly period ended March 31, 2001

15

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KEITHLEY INSTRUMENTS, INC.
(Registrant)

Date: May 14, 2001

/s/ Joseph P. Keithley

Joseph P. Keithley
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

Date: May 14, 2001

/s/ Mark J. Plush

Mark J. Plush
Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

16