

KEITHLEY INSTRUMENTS INC

Form 10-Q

August 03, 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.**

Results of Operations

Liquidity and Capital Resources

Outlook

Factors That May Affect Future Results

**PART II. OTHER INFORMATION**

Item 1. Legal Proceedings.

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

**SIGNATURES**

Exhibit 11

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**Table of Contents**

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**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**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 June 30, 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  
incorporation or organization)

**34-0794417**

(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 ☒ NO ☐

As of July 31, 2001 the Registrant had outstanding 13,628,588 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)**

|  | <b>June 30,<br/>2001</b> | <b>June 30,<br/>2000</b> | <b>September<br/>30,<br/>2000</b> |
|--|--------------------------|--------------------------|-----------------------------------|
| <b>Assets</b>                            |                          |                          |                                   |
| Current assets:Cash and cash equivalents | \$42,717                 | \$16,381                 | \$21,408                          |
| Accounts receivable and other, net       | 23,821                   | 126,348                  | 30,621                            |
| Inventories:Raw materials                | 12,893                   | 10,879                   | 11,376                            |
| Work in process                          | 3,123                    | 6,125                    | 6,685                             |
| Finished products                        | 3,117                    | 3,608                    | 3,083                             |
|  |                          |                          |                                   |
|  |                          |                          |                                   |
|  |                          |                          |                                   |
| Total inventories                        | 19,133                   | 21,099                   | 20,144                            |
| Deferred income taxes                    | 17,145                   | 10,467                   | 13,935                            |
| Other current assets                     | 788                      | 543                      | 506                               |

Total current  
assets 103,604,748,388,614

Property, plant and equipment, at  
cost 41,885,402,963,809 Less-Accumulated  
depreciation 28,398,274,032,590

Total property, plant and equipment,  
net 13,487,128,931,219

Deferred income  
taxes 5,203,650,259,987 Other  
assets 7,878,666,365,518

Total  
assets \$130,172,100,896 \$112,338

**Liabilities and Shareholders**

**Equity** Current liabilities: Short-term  
debt \$244,225 Accounts  
payable 6,829,106,819,321 Accrued  
payroll and related  
expenses 6,915,910,041 Other  
accrued  
expenses 6,577,558,152 Income  
taxes payable 6,893,832,096

Total current  
liabilities 27,214,225,835

Long-term  
debt 3,000,000,000 Other  
long-term  
liabilities 5,127,487,723 Deferred  
income taxes 767 Shareholders  
equity: Paid-in-capital 22,808,138,891,359 Earnings  
reinvested in the  
business 76,736,556,996,211 Accumulated  
other comprehensive

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income(1,075)(428)(819)Unamortized  
portion of restricted  
stock(163)(206)(196)Common  
shares held in treasury, at  
cost(3,482)(4,228)(2,782)

Total shareholders  
equity94,82464,72675,773

Total liabilities and shareholders  
equity\$130,172\$100,896\$112,338

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

## Table of Contents

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

|  | For the Three Months<br>Ended June 30, |          | For the Nine Months<br>Ended June 30, |           |
|--|--|----------|---------------------------------------|-----------|
|  | 2001                                   | 2000     | 2001                                  | 2000      |
| Net sales  | \$36,275                               | \$40,492 | \$123,951                             | \$107,523 |
| Cost of goods<br>sold14,49915,43547,85941,655Selling,<br>general and administrative<br>expenses12,46512,89240,52935,642Product<br>development<br>expenses3,7183,22411,6838,975Gain on<br>sale of business (477)Net financing<br>income(257)(111)(888)(248) |  |          |                                       |           |
| Income before income<br>taxes5,8509,05224,76821,976Income tax<br>expense1,7643,2698,6697,857   |  |          |                                       |           |

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Net  
income\$4,086\$5,783\$16,099\$14,119

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|  |

Basic earnings per  
share\$0.26\$0.39\$1.02\$0.97

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Diluted earnings per  
share\$0.25\$0.36\$0.97\$0.88

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Cash dividends per Common  
Share\$0.0375\$0.0275\$0.1025\$0.0755

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Cash dividends per Class BCommon  
Share\$0.030\$0.022\$0.0820\$0.0604

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

## 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<br>Months<br>Ended June 30, |         | For the Nine<br>Months<br>Ended June 30, |          |
|---|---|---------|--|----------|
|   | 2001                                      | 2000    | 2001                                     | 2000     |
| Cash flows from operating activities:               |   |         |  |          |
| Net income  | \$4,086                                   | \$5,783 | \$16,099                                 | \$14,119 |
| Expenses not requiring outlay of cash               | 997                                       | 1,319   | 2,635                                    | 3,225    |
| Gain on sale of business                            | (477)                                     |         |  |          |
| Changes in working capital                          | 6,745                                     | (5,408) | 7,809                                    | (11,839) |
| Other operating activities                          | 177                                       | 193     | 981                                      | 303      |
|   |   |         |  |          |
|   |   |         |  |          |
|   |   |         |  |          |
| Net cash provided by operating activities           | 12,005                                    | 1,887   | 26,641                                   | 6,331    |
|   |   |         |  |          |
|   |   |         |  |          |
|   |   |         |  |          |
| Cash flows from investing activities:               |   |         |  |          |
| Payments for property, plant, and equipment         | (670)                                     | (1,163) | (2,984)                                  | (3,214)  |
| Other investing activities-net                      | 452                                       | 455     |  |          |
|   |   |         |  |          |
|   |   |         |  |          |
|   |   |         |  |          |
| Net cash used in investing activities               | (666)                                     | (1,111) | (2,980)                                  | (3,159)  |
|   |   |         |  |          |
|   |   |         |  |          |
|   |   |         |  |          |
| Cash flows from financing activities:               |   |         |  |          |
| Net increase (decrease) in short term debt          | 96  | (222)   | 247                                      |          |
| Cash dividends                                      | (575)                                     | (400)   | (1,573)                                  | (1,042)  |
| Repurchase of treasury stock                        | (1,209)                                   | (2,848) | (3,013)                                  |          |
| Other transactions-net                              | 311                                       | 754     | 2,374                                    | 3,943    |
|   |   |         |  |          |
|   |   |         |  |          |
|   |   |         |  |          |
| Net cash provided by (used in) financing activities | (1,753)                                   | 1,450   | (2,269)                                  | 135      |
|   |   |         |  |          |
|   |   |         |  |          |
|   |   |         |  |          |
| Effect of exchange rate changes on cash             | (117)                                     | (91)    | (83)                                     | (352)    |

|                                     |          |          |          |
|-------------------------------------|----------|----------|----------|
|                                     |          |          |          |
|                                     |          |          |          |
|                                     |          |          |          |
|                                     |          |          |          |
| Increase in cash and cash           |          |          |          |
| equivalents                         | 9,469    | 2,135    | 21,309   |
| Cash and cash                       |          |          |          |
| equivalents at beginning of         |          |          |          |
| period                              | 33,248   | 14,246   | 21,408   |
|                                     |          |          |          |
|                                     |          |          |          |
|                                     |          |          |          |
|                                     |          |          |          |
| Cash and cash equivalents at end of |          |          |          |
| period                              | \$42,717 | \$16,381 | \$42,717 |
|                                     |          |          |          |
|                                     |          |          |          |
|                                     |          |          |          |
|                                     |          |          |          |

Cash and cash equivalents at end of  
period \$42,717 \$16,381 \$42,717 \$16,381

**Supplemental disclosures of cash flow**

**information** Cash paid during the period for: Income  
taxes \$1,625 \$2,828 \$4,622 \$5,416 Interest 181 748 55

**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.

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

**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**A. Management Representation**

The consolidated financial statements at June 30, 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. (the Company), 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 15,784,010 and 16,448,472 for the quarter ended June 30, 2001, respectively, and 14,834,479 and 16,213,650 for the quarter ended June 30, 2000, respectively. The weighted average number of shares and share equivalents used to determine basic earnings per share and diluted earnings per share was

15,723,915 and 16,531,781 for the nine months ended June 30, 2001, respectively, and 14,487,438 and 15,963,366 for the nine months ended June 30, 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 favorable settlement of certain of these issues.

**D. Stock Repurchase Program**

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 third quarter of fiscal 2001, the Company repurchased 46,000 Common Shares at an average cost of \$26.18 per share including commissions. Year-to-date, the Company has repurchased 151,000 Common Shares at an average cost of \$18.86 per share including commissions. At June 30, 2001, 143,900 Common Shares purchased under the Company's share repurchase program remained in treasury at an average cost of \$18.93 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

4

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**Table of Contents**

Directors' fees deferred pursuant to the Keithley Instruments, Inc. 1996 Outside Directors Deferred Stock Plan. The total number of shares held in treasury at June 30, 2001 was 263,598.

**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 June 30, 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.

## 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

5

### Table of Contents

impact the Company's net income or total shareholders' equity. Comprehensive income for the three and nine months ended June 30, 2001 and 2000 is as follows:

|  | For the Three Months<br>Ended June 30, |         | For the Nine Months<br>Ended June 30, |          |
|--|--|---------|---------------------------------------|----------|
|  | 2001                                   | 2000    | 2001                                  | 2000     |
| Net income   | \$4,086                                | \$5,783 | \$16,099                              | \$14,119 |
| Unrealized gains on value of derivative securities |  |         |                                       |          |
| 14 Foreign currency translation adjustments        | (116)                                  | (4)     | (271)                                 | (541)    |
| Comprehensive income                               | \$3,970                                | \$5,779 | \$15,842                              | \$13,578 |

| For the<br>Three<br>Months<br>Ended June<br>30, |      | For the Nine<br>Months<br>Ended June<br>30, |      |
|---|------|---|------|
| 2001  | 2000 | 2001  | 2000 |

**2001      2000**

\$21,365\$19,556

**Table of Contents**

**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.

7

**Table of Contents**

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

(In Thousands of Dollars)

**Results of Operations**

**Third Quarter 2001 Compared with Third Quarter 2000**

Net income for the third quarter of fiscal 2001 of \$4,086, or \$0.25 per share on a diluted basis, decreased 29 percent from \$5,783, or \$0.36 per share, in last year's third quarter.

Net sales of \$36,275 decreased 10 percent from \$40,492 in the prior year's third quarter. This was principally due to lower sales of the Company's products serving the telecommunications and optoelectronics industries. Sales decreased 14 percent in the United States and 7 percent in Europe, but increased 7 percent in the Pacific Basin region. A strong U.S. dollar versus foreign currencies had a negative effect on sales growth of about 1 percentage point. Sequentially, sales decreased 16 percent from the second quarter's sales.

Orders for the third quarter of fiscal 2001 of \$27,856 decreased 35 percent from \$42,552 from the prior year's quarter. Geographically, orders were down 36 percent in the United States, 18 percent in the Pacific Basin and 41 percent in Europe. Sequentially, third quarter orders decreased 23 percent from the second quarter. Compared to the second quarter, semiconductor orders were down about 21 percent, telecommunications orders were down about 6 percent, and optoelectronics orders were down approximately 67 percent. Order cancellations during the quarter were minimal, although the Company saw approximately \$1,100 of orders pushed out for shipment to later quarters. Order backlog decreased \$10,156 during the quarter to \$17,152 at June 30, 2001.

Cost of goods sold as a percentage of net sales increased to 40.0 percent from 38.1 percent. The increase was due to spreading fixed manufacturing costs over lower sales volumes, a stronger U.S. dollar versus foreign currencies by 6 percent, and unfavorable inventory adjustments. The unfavorable inventory adjustments relate to excess and obsolete inventory, and are the result of lower than previously expected sales levels. The Company's hedging activities decreased cost of goods sold as a percentage of sales for the quarter by 0.3 percentage points versus a decrease of 0.2 percentage points in the prior year's quarter.

Selling, general and administrative expenses of \$12,465 decreased 3 percent from \$12,892 in last year's third quarter, but increased as a percentage of net sales to 34.4 percent from 31.8 percent. Higher costs related to increased headcount in sales, marketing and applications support were offset by lower expenses for incentive compensation plans and lower commissions due to lower sales. Selling, general and administrative expenses decreased sequentially \$2,165, or 15 percent, from the second quarter. This was due to the cost cutting efforts the Company initiated during the later part of the second quarter, including significant reductions in discretionary spending and headcount reductions through attrition, as well as lower commissions on lower sales.

## **Table of Contents**

Product development expenses of \$3,718 increased 15 percent from last year's \$3,224 to 10.2 percent of net sales from 8.0 percent. 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. Product development expenses decreased 9 percent sequentially from the second quarter. The decrease was due primarily to higher pilot production and development supply costs incurred during the second quarter because of the timing of new product introductions.

The Company generated net financing income during the quarter of \$257 versus \$111 in the prior year. Interest earned on higher average cash and cash equivalents balances accounted for the improvement.

## **Nine Months Ended June 30, 2001 Compared with Nine Months Ended June 30, 2000**

Net income for the 2001 nine-month period was \$16,099, or \$0.97 per share. This represents a 17 percent increase from \$13,816, or \$0.86 per share, last year excluding an adjustment to a gain recorded for the previous sale of a product line. Net income as reported for the 2000 nine-month period was \$14,119, or \$0.88 per share.

Net sales of \$123,951 increased 15 percent from \$107,523 reported for the nine-month period last year. Sales were up in all major geographies with the United States up 4 percent, Europe up 15 percent and the Pacific Basin region up 50 percent from the prior year. A strong U.S. dollar versus foreign currencies had a negative effect on sales growth of about 3 percentage points.

Orders for the nine-month period were down 7 percent versus last year. Strong orders for the Company's products serving the optoelectronics industry and increased orders from research and education customers were offset by declines in orders from telecommunications and semiconductor customers. For the first nine months of fiscal 2001, orders from the Company's semiconductor customers comprised about one-third of the total, while telecommunications and optoelectronics orders made up approximately 12 and 16 percent, respectively. Geographically, orders were down 14 percent and 6 percent in the United States and Europe, respectively, and up 5 percent in the Pacific Basin region.

Cost of goods sold as a percentage of net sales was flat versus the prior year at 38.6 percent compared to 38.7 percent. A favorable product and geographic mix were offset by the unfavorable impact of a 10 percent stronger dollar. Foreign exchange hedging had no effect on cost of goods as a percentage of sales for the 2001 nine-month period versus a decrease of 0.2 percentage points in the prior year.

Selling, general and administrative expenses of \$40,529 increased 14 percent from \$35,642 in the same period last year, but decreased as a percentage of net sales to 32.7 percent from 33.2 percent. The majority of the increase in dollars can be attributed to higher marketing costs due to increased headcount, as well as higher costs for additional sales promotion programs.

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**Table of Contents**

Product development expenses of \$11,683, or 9.4 percent of net sales, increased 30 percent from \$8,975, or 8.3 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 added approximately 83 employees, a 14 percent increase, from June 30, 2000 to June 30, 2001, with worldwide headcount at 680 at June 30, 2001. Significant investments have been made in the Pacific Basin by adding people in China, Taiwan and Korea, and by opening direct sales offices in Finland and Sweden. Of the 83 additions, approximately 80 percent of the new hires are in marketing, sales, application support and product development. During the quarter, the Company curtailed hiring plans in an effort to adjust costs for the current business environment, and headcount decreased slightly from March 31, 2001 to June 30, 2001 due to attrition.

The Company generated net financing income of \$888 for the current year's nine-month period versus \$248 last year. Interest earned on higher average cash and cash equivalents balances accounted for the improvement.

The effective tax rate was 35.0 for the current nine-month period compared with 35.8 percent for the prior year's nine-month period.

**Liquidity and Capital Resources**

Cash generated from operations was \$12,005 for the third quarter and \$26,641 for the nine months ended June 30, 2001. Capital expenditures totaled \$670 and \$2,984 for the third quarter and nine-month periods, respectively, and the Company paid dividends of \$575 and \$1,573 for the third quarter and nine months, respectively. Additionally, during the third quarter, the Company repurchased 46,000 Common Shares for \$1,209 including commissions. For the nine-month period ending June 30, 2001, the Company repurchased 151,000 Common Shares for \$2,848. (See Note D.) At June 30, 2001, cash and cash equivalents totaled \$42,717, an increase of \$9,469 during the quarter and \$21,309 since September 30, 2000. Debt totaled \$3,000 at June 30, 2001 and the debt-to-capital ratio was 3.1 percent.

The Company expects to finance capital spending, the stock repurchase program and working capital requirements with cash on hand and cash provided by operations. At June 30, 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.

**Outlook**

As of the date of this filing, the Company confirms that it remains comfortable with the guidance it provided in its July 19, 2001 press release with regard to sales and pretax return on sales for the fourth quarter of fiscal 2001. The guidance was as follows: Based on current order activity, the

**Table of Contents**

Company expects sales for the fourth quarter to range between \$25,000 and \$31,000. The pretax return on sales would be in the range of low single-digits to 10 percent depending on the level of sales.

In addition, on August 1, 2001, the Company laid off approximately 35 people, or 5 percent of its workforce. The layoff was primarily in the manufacturing area. The expense the Company will record in the fourth quarter in relation to the layoff is consistent with the aforementioned guidance. In addition to the layoff, the Company also took actions in the third quarter and will continue to take actions in the fourth quarter of fiscal 2001 to reduce its costs as a result of the downturn in the segments of the electronics industry tied to global communications. These actions include closing manufacturing for 5 days in the fourth quarter of 2001, a voluntary leave of absence program, utilization of all vacation by the end of the fourth quarter, and significant reductions in discretionary spending. The Company will continue to invest in areas of strategic importance that will strengthen its competitive position.

**Factors That May Affect Future Results**

Statements included in the Liquidity and Capital Resources section and the Outlook section of Management's Discussion and Analysis of Financial Condition and Results of Operations with regard to financing capital spending, the stock repurchase program and working capital requirements, as well as sales and pretax return on sales for the fourth quarter of fiscal 2001, and further cost cutting actions 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 fiscal year 2001, the Company has experienced a slowdown in orders, primarily from its semiconductor, telecommunications and optoelectronics 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

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**Table of Contents**

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 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. Failure to retain personnel could have a material adverse effect on the Company's results of operations.

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 15 subsidiaries or sales offices located outside the United States, and non-U.S. sales accounted for approximately 55 percent of the Company's revenue during the first nine months 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. On July 23, 2001 the actions were consolidated and recaptioned In re: Keithley Instruments, Inc., Securities Litigation. 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.

**Table of Contents**

**PART II. OTHER INFORMATION**

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

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

| <b>Exhibit<br/>Number</b> | <b>Exhibit</b>                                 |
|---------------------------|--|
| 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 June 30, 2001.  
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: August 2, 2001

/s/ Joseph P. Keithley

Joseph P. Keithley  
Chairman, President and Chief Executive Officer



(Principal Executive Officer)

Date: August 2, 2001

/s/ Mark J. Plush

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