KEITHLEY INSTRUMENTS INC
Form 10-Q
May 13, 2010

Table of Contents

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 March 31, 2010
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 website, 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 o **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** o **Non-accelerated filer** þ **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 May 12, 2010 there were outstanding 13,617,285 Common Shares (net of shares repurchased and held in treasury), without par value, and 2,150,502 Class B Common Shares, without par value.

Table of Contents

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 into which Keithley sells, conditions of the electronics industry and the economy in general, deployment of our own sales employees throughout the world, expected cost savings from cost cutting actions, 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, opinions, could, future, forward, potential, probable, and similar expressions are intended to identify forward-lo 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, 2009.

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements.

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

	March 31, 2010	September 30, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 38,024	$ 24,114
Restricted cash	534	569
Short-term investments	1,260	759
Refundable income taxes	140	466
Accounts receivable and other, net	14,027	11,738
Inventories:		
Raw materials	4,875	5,760
Work in process	965	613
Finished products	2,500	3,564
Total inventories	8,340	9,937
Deferred income taxes	250	303
Assets held for sale	1,715	
Prepaid expenses	1,785	1,753
Total current assets	66,075	49,639
Property, plant and equipment, at cost	40,393	54,081
Less-Accumulated depreciation	34,161	42,981
Property, plant and equipment, net	6,232	11,100
Deferred income taxes	673	748
Intangible assets		910
Other assets	10,309	10,705
Total assets	$ 83,289	$ 73,102
Liabilities and Shareholders Equity		
Current liabilities:		
Short term debt	$ 114	$
Accounts payable	4,876	4,916
Accrued payroll and related expenses	5,674	5,648
Other accrued expenses	4,495	5,424
Income taxes payable	1,894	1,122
Total current liabilities	17,053	17,110

Long-term deferred compensation		2,129		2,111
Long-term income taxes payable		3,039		2,852
Other long-term liabilities		14,279		14,419
Shareholders equity:				
Common Shares, stated value $.0125:				
Authorized 80,000,000; issued and outstanding 14,997,582 at March 31, 2010 and 14,950,093 at September 30, 2009		187		187
Class B Common Shares, stated value $.0125:				
Authorized 9,000,000; issued and outstanding 2,150,502 at March 31, 2010 and September 30, 2009		27		27
Capital in excess of stated value		39,829		39,121
Retained earnings		38,434		28,629
Accumulated other comprehensive loss		(16,163)		(15,900)
Common shares held in treasury, at cost		(15,525)		(15,454)
Total shareholders equity		46,789		36,610
Total liabilities and shareholders equity	$	83,289	$	73,102

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

Table of Contents

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

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2010	2009	2010	2009
Net sales	$ 29,846	$ 23,961	$ 58,243	$ 55,031
Cost of goods sold	10,200	10,409	20,716	23,704
Inventory write-off and accelerated depreciation for exit of product line		2,540		2,540
Gross profit	19,646	11,012	37,527	28,787
Selling, general and administrative expenses	11,945	12,259	23,213	26,274
Product development expenses	2,804	4,633	5,934	10,686
Gain on sale of product line	407		(3,086)	
Restructuring and other charges	(104)	4,205	(134)	4,202
Operating income (loss)	4,594	(10,085)	11,600	(12,375)
Investment income	19	57	44	232
Interest expense	(6)	(8)	(8)	(28)
Income (loss) before income taxes	4,607	(10,036)	11,636	(12,171)
Income tax provision	475	243	1,447	30,467
Net income (loss)	$ 4,132	$ (10,279)	$ 10,189	$ (42,638)
Basic earnings (loss) per share	$ 0.26	$ (0.66)	$ 0.65	$ (2.73)
Diluted earnings (loss) per share	$ 0.26	$ (0.66)	$ 0.64	$ (2.73)
Cash dividends per Common Share	$ .0125	$ .0375	$ .025	$ .075

Cash dividends per Class B Common Share	$	.010	$	.030	$	.020	$	.060

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

Table of Contents

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

	For the Six Months Ended March 31, 2010	For the Six Months Ended March 31, 2009
Cash flows from operating activities:		
Net income (loss)	$ 10,189	$ (42,638)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Gain on sale of product line	(3,086)	
Depreciation and amortization	1,297	1,826
Non-cash stock compensation	650	(536)
Non-cash restructuring charges and inventory write-down		4,498
Loss on the disposition/impairment of assets	173	64
Deferred income taxes	38	30,018
Other items not affecting outlay of cash	94	25
Changes in working capital	(4,103)	3,038
Other operating activities	882	741
Net cash provided by (used in) operating activities	6,134	(2,964)
Cash flows from investing activities:		
Capital expenditures	(212)	(1,480)
Increase (decrease) in Restricted cash	35	(1,055)
Proceeds from sale of product line	9,000	
Net purchases of short-term investments	(501)	(1,041)
Proceeds from maturities and sales of investments		12,500
Net cash provided by investing activities	8,322	8,924
Cash flows from financing activities:		
Net borrowings of short-term debt	116	567
Cash dividends	(383)	(1,139)
Repurchase of Common Shares	(12)	(787)
Net cash used in financing activities	(279)	(1,359)
Effect of exchange rate changes on cash	(267)	(122)
Increase in cash and cash equivalents	13,910	4,479
Cash and cash equivalents at beginning of period	24,114	22,073
Cash and cash equivalents at end of period	$ 38,024	$ 26,552

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 or optical signals. Although our products vary in capability, sophistication, use, size and price, they generally test, measure and analyze electrical, 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 March 31, 2010 and 2009, and for the three and six 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 six month periods ended March 31, 2010 and 2009 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, 2009, which were included in the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2009 filed on December 14, 2009 (the 2009 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 consolidated financial statements and the notes thereto included in the 2009 Form 10-K.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. G.A.A.P.) 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. Actual results could differ materially from those estimates.

C. Recent Accounting Pronouncements

Recently Adopted Accounting Guidance

In September 2006, the Financial Accounting Standards Board (FASB) issued authoritative guidance which established a framework for measuring fair value in generally accepted accounting principles, and expanded disclosures about fair value measurements. The guidance is applicable to other accounting pronouncements that require or permit fair value measurements. Accordingly, the guidance did not require any new fair value measurements. However, for some entities, the application changed current practice. The guidance became 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 for nonfinancial assets and liabilities. The Company adopted the guidance effective October 1, 2008, except with respect to nonfinancial assets and liabilities, and the adoption did not have a material impact on its consolidated financial statements. The Company adopted the guidance related to nonfinancial assets and liabilities effective October 1, 2009, which resulted in expanded disclosures in its consolidated financial statements. In January 2010, the FASB issued updates to the guidance that are intended to improve disclosures about fair value measurements. The Company adopted the guidance effective January 1, 2010. Adoption did not have a material impact on its consolidated financial statements.

Table of Contents

Accounting Guidance Not Yet Adopted

In June 2009, the FASB issued updates to guidance that addresses accounting for variable interest entities. These updates to Accounting Standards Codification (ASC) 810 are effective for the Company in the first quarter of fiscal 2011. The Company is currently assessing the impact that adoption will have on its consolidated financial statements.

In December 2008, the FASB issued updates to the guidance intended to enhance disclosures regarding assets in defined benefit pension or other post-retirement plans. The updates are effective for the Company in the fourth quarter of fiscal 2010. The Company does not anticipate that the adoption will have a material effect on its consolidated financial statements.

D. Earnings Per Share

Both Common Shares and Class B Common Shares are included in the calculation of earnings per share. Details of the calculation are set forth below:

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2010	2009	2010	2009
Net income (loss)	$ 4,132	$ (10,279)	$ 10,189	$ (42,638)
Weighted averages shares outstanding	15,758,855	15,616,471	15,745,173	15,613,214
Dilutive effect of stock awards	298,768		218,556	
Weighted average shares used for dilutive earnings per share	16,057,623	15,616,471	15,963,729	15,613,214
Basic earnings (loss) per share	$ 0.26	$ (0.66)	$ 0.65	$ (2.73)
Diluted earnings (loss) per share	$ 0.26	$ (0.66)	$ 0.64	$ (2.73)

Due to the net loss for the three and six month periods ended March 31, 2009, 250 and 8,474 shares were excluded from the dilutive calculation for the exercise of stock options and purchase of stock under the stock purchase plan, respectively. For the three months ended March 31, 2010 and 2009, both vested and non-vested stock option awards outstanding representing approximately 2.5 and 3.1 million, respectively, were excluded from the calculation of diluted earnings per share as their effect would have been antidilutive. For both six month periods ended March 31, 2010 and 2009, 2.6 and 3.1 million, respectively, vested and non-vested stock option awards outstanding were considered antidilutive and omitted from the calculation of diluted earnings per share.

E. Comprehensive Income

Comprehensive income (loss) for the three and six month periods ended March 31, 2010 and 2009 is as follows:

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2010	2009	2010	2009
Net income (loss)	$ 4,132	$ (10,279)	$ 10,189	$ (42,638)
Unrealized (losses) gains on value of derivative contracts	(48)	261	156	(111)
Net unrealized investment gains, net of tax				442
Pension liability adjustment		(17,730)		(17,730)
Foreign currency translation adjustments	(241)	(560)	(419)	(201)
Comprehensive income (loss)	$ 3,843	$ (28,308)	$ 9,926	$ (60,238)

6

Table of Contents

F. Fair Value Measurements

Authoritative guidance defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We categorize financial instruments within the fair value hierarchy based upon the lowest level of input that is significant to the fair value measurement. Our financial instruments consist primarily of cash and cash equivalents, restricted cash, accounts receivable, short-term investments, forward contracts to purchase foreign currencies and accounts payable. Due to their short-term nature, the carrying values of accounts receivable and accounts payable approximate fair value. Level 1 assets represent those whose fair value is based upon quoted prices in active markets for identical assets, while Level 2 assets represent those whose fair value is based upon significant other observable inputs. The Company has no Level 3 assets. Financial assets measured at fair value on a recurring basis as of March 31, 2010, were as follows:

	Level 1	Level 2	Total
Assets			
Cash and cash equivalents (1)	$ 36,761	$ 1,263	$ 38,024
Restricted cash	534		534
Certificates of deposit (2)		1,260	1,260
Foreign currency forward contracts (3)		135	135
	$ 37,295	$ 2,658	$ 39,953

Financial assets measured at fair value on a recurring basis as of September 30, 2009, were as follows:

	Level 1	Level 2	Total
Assets			
Cash and cash equivalents (1)	$ 22,444	$ 1,670	$ 24,114
Restricted cash	569		569
Certificates of deposit (2)		759	759
	$ 23,013	$ 2,429	$ 25,442
Liabilities			
Foreign currency forward contracts (3)	$	$ 170	$ 170

(1) Consists of cash, money market funds and certificates of deposit having maturities of less than 90 days.

(2) Included in Short term investments in the unaudited

condensed consolidated balance sheets.

(3) Included in Prepaid expenses or Other accrued expenses in the unaudited condensed consolidated balance sheets, with related unrecognized gains and losses being recorded in Accumulated other comprehensive losses until realized, at which time they are recorded in Cost of goods sold in the condensed consolidated statement of operations.

Certain nonfinancial assets are measured at fair value on a nonrecurring basis and, therefore, are not included in the tables above. These assets primarily consist of notes receivable and are included in Other assets in the condensed consolidated balance sheets. They are measured at cost and are tested for impairment when events and circumstances warrant by comparing the fair value of the underlying net assets to the carrying value of the notes receivable.

G. Guarantor s Disclosure Requirements

Guarantee of lease

In connection with the sale of substantially all of the assets of the Company s radio frequency (RF) product line to Agilent Technologies, Inc. (Agilent) in November 2009, Agilent assumed the obligations under the Company s lease in Santa Rosa, California (see Note O. for further details). The Company remains obligated in the event of default by Agilent; however, Agilent will indemnify the Company for any amounts paid by the Company to the landlord in event of any default. The maximum amount of future payments (undiscounted) the Company would be required to make under the lease would be approximately $635 through April 30, 2012. The Company has not recorded any liability for this item, as it does not believe that it is probable that Agilent will default on the lease payments.

Table of Contents

Product Warranties

Generally, the Company s products are covered under a one-year warranty; however, certain products are covered under a two or three-year warranty. It is the Company s policy to accrue for all product warranties based upon historical in-warranty repair data. In addition, the Company accrues for specifically identified product performance issues. The Company also offers extended warranties for certain of its products for which revenue is recognized over the life of the contract period. The costs associated with servicing the extended warranties are expensed as incurred. The revenue from the extended warranties, as well as the related costs, is immaterial for the three month periods ending March 31, 2010 and 2009. A reconciliation of the estimated changes in the aggregated product warranty liability for the three and six month periods ending March 31, 2010 and 2009 is as follows:

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2010	2009	2010	2009
Beginning balance	$ 483	$ 632	$ 466	$ 701
Accruals for warranties issued during the period	276	208	528	487
Accruals related to pre-existing warranties (including changes in estimates and expiring warranties)	(31)	(35)	(79)	(61)
Settlements made (in cash or in kind) during the period	(195)	(299)	(382)	(621)
Ending balance	$ 533	$ 506	$ 533	$ 506

H. Repurchase of Common Shares

In February 2007, the Company s Board of Directors approved an open market stock repurchase program (the 2007 Program). Under the terms of the 2007 Program, the Company was authorized to purchase up to 2,000,000 Common Shares, which represented approximately 12 percent of the shares outstanding at the time the 2007 Program was approved, over a two-year period ending February 28, 2009. 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 employee stock purchase plans. The Company did not replace the 2007 Program upon its expiration.

Under the Company s 2002 Stock Incentive Plan, the Company repurchased 2,649 Common Shares during the first half of fiscal 2010 for $12 for withholding of payroll taxes relating to vested restricted share awards in 2009, representing an average cost of $4.67 each (there were no associated commissions). During the first six months of fiscal year 2009, the Company purchased 155,000 Common Shares under the 2007 Program for $745 at an average cost of $4.80 per share, including commissions. In addition, the Company repurchased 11,733 Common Shares, at an average cost of $3.62 per share, as permitted under the Company s 2002 Stock Incentive Plan, for withholding of payroll taxes upon the issuance of Common Shares for vested performance award units in November 2008. See Note M.

At March 31, 2010 and 2009, 1,380,297 and 1,377,648 Common Shares remained in treasury at an average cost, including commissions, of $9.93 and $9.94, respectively.

Also included in Common shares held in treasury, at cost are shares purchased to settle non-employee Directors fees deferred pursuant to the Keithley Instruments, Inc. 1996 Outside Directors Deferred Stock Plan. Shares held pursuant to this plan totaled 237,225 and 195,044 at March 31, 2010 and 2009, respectively.

Table of Contents

I. Investments

The Company classifies its investments in certificates of deposits and money market fund investments as trading , which requires they be recorded at fair market value in the Company s consolidated balance sheets with the changes in fair value and resulting gains and losses included in the Company s condensed consolidated statements of operations. There were no realized gains or losses on sales of marketable securities during the first half of fiscal years 2010 or 2009. U.S. G.A.A.P. defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. We determined the fair market value of the trading investments at March 31, 2010, and September 30, 2009, using quoted prices for similar assets, which is a Level 2 hierarchy fair value measurement. The balance of trading investments was $1,260 and $759 at March 31, 2010, and September 30, 2009, respectively, and there were no unrealized gains or losses.

At March 31, 2010, and September 30, 2009, the investments have maturity dates of less than one year.

J. Financing Arrangements

Effective March 31, 2010, the Company amended its $5,000 credit agreement. The revised agreement consists of a $5,000 facility ($114 of short-term debt and $420 of standby letters of credit outstanding at March 31, 2010) that provides unsecured, multi-currency revolving credit at various interest rates based on Prime or LIBOR. LIBOR was 0.29% and the Prime rate was 3.25% as of March 31, 2010. The agreement does not contain debt covenants, but requires cash to be pledged against outstanding borrowings and standby letters of credit. The Company is required to pay a facility fee of 0.25% per annum on the total amount of the commitment. The agreement s expiration date is March 31, 2012, and 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 $1,611 ($92 outstanding at March 31, 2010). At March 31, 2010, the Company had total unused lines of credit with domestic and foreign banks aggregating $5,985.

K. 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 designate