KEITHLEY INSTRUMENTS INC
Form 10-Q
August 12, 2002

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2002

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	**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 __X__ NO___

As of July 31, 2002 the Registrant had outstanding 13,760,558 Common Shares, without par value, and 2,150,502 Class B Common Shares, without par value.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements.

KEITHLEY INSTRUMENTS, INC.

CONSOLIDATED BALANCE SHEET
(In Thousands of Dollars)
(Unaudited)

	June 30, 2002	June 30, 2001	September 30, 2001
Assets			
Current assets:			
Cash and cash equivalents	$ 22,490	$ 42,717	$ 30,091
Short-term investments	29,053		20,884
Refundable income taxes	185	63	6,196
Accounts receivable and other, net	16,134	23,758	14,787
Inventories:			
Raw materials	8,182	12,893	11,057
Work in process	2,238	3,123	2,236
Finished products	1,991	3,117	2,402
Total inventories	12,411	19,133	15,695
Deferred income taxes	8,607	17,145	7,382
Other current assets	957	788	653
Total current assets	89,837	103,604	95,688
Property, plant and equipment, at cost	42,826	41,885	41,207
Less-Accumulated depreciation	29,577	28,398	27,573
Total property, plant and equipment, net	13,249	13,487	13,634
Deferred income taxes	13,703	5,203	5,681
Other assets	9,367	7,878	8,597
Total assets	$126,156	$130,172	$123,600
Liabilities and Shareholders Equity			
Current liabilities:			
Accounts payable	5,995	$ 6,829	$ 5,906
Accrued payroll and related expenses	5,132	6,915	7,213
Other accrued expenses	5,091	6,577	4,826
Income taxes payable	4,261	6,893	3,227
Total current liabilities	20,479	27,214	21,172
Long-term debt	3,000	3,000	3,000
Other long-term liabilities	6,308	5,127	5,475
Deferred income taxes	7	7	7
Shareholders equity:			

Paid-in-capital	28,336	22,808	22,893
Earnings reinvested in the business	71,902	76,736	77,454
Accumulated other comprehensive income	(510)	(1,075)	(708)
Unamortized portion of restricted stock	(119)	(163)	(152)
Common shares held in treasury, at cost	(3,247)	(3,482)	(5,541)
Total shareholders equity	96,362	94,824	93,946
Total liabilities and shareholders equity	$126,156	$130,172	$123,600

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

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KEITHLEY INSTRUMENTS, INC.

CONSOLIDATED STATEMENT OF INCOME
(In Thousands of Dollars Except for Per Share Data)
(Unaudited)

	For the Three Months Ended June 30, 2002	For the Three Months Ended June 30, 2001	For the Nine Months Ended June 30, 2002	For the Nine Months Ended June 30, 2001
Net sales	$26,029	$36,275	$68,499	$123,951
Cost of goods sold	11,259	14,499	30,258	47,859
Selling, general and administrative expenses	11,407	12,465	32,926	40,529
Product development expenses	3,551	3,718	10,560	11,683
Severance charges	1,461		1,461	
Net financing income	(253)	(257)	(765)	(888)
(Loss) income before income taxes	(1,396)	5,850	(5,941)	24,768
Income (benefit) taxes	(507)	1,764	(2,109)	8,669
Net (loss) income	$ (889)	$ 4,086	$ (3,832)	$ 16,099
Basic (loss) earnings per share	$ (0.06)	$ 0.26	$ (.24)	$ 1.02
Diluted (loss) earnings per share	$ (0.06)	$ 0.25	$ (.24)	$ 0.97
Cash dividends per Common Share	$0.0375	$0.0375	$0.1125	$ 0.1025
Cash dividends per Class B Common Share	$ 0.030	$ 0.030	$0.0900	$ 0.0820

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

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KEITHLEY INSTRUMENTS, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
(In Thousands of Dollars)
(Unaudited)

	For the Three Months Ended June 30, 2002	For the Three Months Ended June 30, 2001	For the Nine Months Ended June 30, 2002	For the Nine Months Ended June 30, 2001
Cash flows from operating activities:				
Net (loss) income	$ (889)	$ 4,086	$ (3,832)	$16,099
Expenses not requiring outlay of cash	723	997	2,658	2,635
Changes in working capital	6,711	6,745	3,899	7,809
Other operating activities	262	177	(274)	98
Net cash provided by operating activities	6,807	12,005	2,451	26,641
Cash flows from investing activities:				
Payments for property, plant, and equipment	(330)	(670)	(2,088)	(2,984)
Purchase of investments	(4,056)		(10,129)	
Sale of investments	1,855		2,100	
Other investing activities-net	3	4	24	4
Net cash used in investing activities	(2,528)	(666)	(10,093)	(2,980)
Cash flows from financing activities:				
Net decrease in short term debt				(222)
Cash dividends	(575)	(575)	(1,719)	(1,573)
Repurchase of treasury stock		(1,209)		(2,848)
Proceeds from employee stock purchase plans	85	38	1,445	2,267
Other transactions-net		(7)	67	107
Net cash provided by (used in) financing activities	(490)	(1,753)	(207)	(2,269)
Effect of exchange rate changes on cash	464	(117)	248	(83)
Increase (decrease) in cash and cash equivalents	4,253	9,469	(7,601)	21,309
Cash and cash equivalents at beginning of period	18,237	33,248	30,091	21,408
Cash and cash equivalents at end of period	$22,490	$42,717	$ 22,490	$42,717
Supplemental disclosures of cash flow information				
Cash (refunded) paid during the period for:				
Income taxes	$ (5,590)	$ 1,625	$ (5,593)	$ 4,622
Interest	35	18	96	48

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. **Management Representation**

The consolidated financial statements at June 30, 2002 and 2001 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 15,755,241 for the quarter ended June 30, 2002, and 15,784,010 and 16,448,472 for the quarter ended June 30, 2001, respectively. The weighted average number of shares and share equivalents used to determine basic earnings per share and diluted earnings per share was 15,698,669 for the nine months ended June 30, 2002, and 15,723,915 and 16,531,781 for the nine months ended June 30, 2001, respectively. Both Common Shares and Class B Common Shares are included in calculating the weighted average number of shares outstanding.

C. **Severance Charges**

The company recorded a $1,461 pretax charge, or $0.06 per share after taxes, for severance at June 30, 2002. Approximately 7 percent of the worldwide work force, or 44 individuals, were affected by the reduction in force, the majority of which were in manufacturing. The charges include salaries and vacation per each individuals severance agreement, payroll taxes, health insurance and pension costs. At June 30, 2002, $1,461 was included in the consolidated balance sheet under the caption Accrued payroll and related expenses for these charges.

D. **Amendment to Credit Agreement**

The company s current credit agreement, which expires March 30, 2004, is a $10,000 debt facility ($3,000 outstanding at June 30, 2002) that provides unsecured, multi-currency revolving credit at various interest rates based on Prime or LIBOR. Under the agreement, the company is required to comply with various financial ratios and covenants. At June 30, 2002, the company would have been in violation of two of these covenants: the Fixed Charge Coverage Ratio and the Leverage Ratio. The credit agreement was amended on August 1, 2002, effective as of June 30, 2002. Under the terms of the amended agreement, the Fixed Charge Coverage Ratio and the Leverage Ratio were suspended through March 31, 2003 and were replaced with two new covenants: Working Capital and EBIDA Plus Non-Recurring Expense. The company is in compliance with the amended credit agreement effective June 30, 2002. (The amended credit agreement is filed as exhibit 10(j) of this quarterly report on Form 10-Q.)

E. **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

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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.

The company did not repurchase shares during the third quarter or the first nine months of fiscal 2002. The company did purchase 46,000 shares during the third quarter of fiscal 2001 at an average cost of $26.18 per share including commissions. For the first nine months of fiscal year 2001, the company purchased 151,000 Common Shares at an average cost of $18.86 per share including commissions. At June 30, 2002, 147,644 Common Shares purchased under the company s share repurchase program remained in treasury at an average cost of $16.11 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 Instruments, Inc. 1996 Outside Directors Deferred Stock Plan. The total number of shares held in treasury at June 30, 2002 was 271,354.

F. **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, 2002, the forward exchange forward contracts were designed as cash flow

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hedges. The interest rate swap instrument was determined to be an ineffective hedge at June 30, 2002, and $238 was recorded as a charge in the third quarter.

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.

G. **Comprehensive Income**

Comprehensive income for the three and nine months ended June 30, 2002 and 2001 is as follows:

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2002	2001	2002	2001
Net (loss) income	$(889)	$4,086	$(3,832)	$16,099
Unrealized (loss) gain on value of derivative securities	(101)		25	14