KEITHLEY INSTRUMENTS INC
Form 10-Q
August 09, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2007

OR

o **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 þ **NO** o

Indicate by check whether the registrant is a large accelerated file, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated file in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o **Accelerated filer** þ **Non-accelerated filer** o

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

YES o **NO** þ

As of August 6, 2007 there were outstanding 14,120,538 Common Shares without par value and 2,150,502 Class B Common Shares, without par value.

TABLE OF CONTENTS

Table of Contents

Forward-Looking Statements

Statements and information included in this Quarterly Report on Form 10-Q by Keithley Instruments, Inc. (Keithley, the Company, we, us or our) that are not purely historical are forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements in this Report include statements regarding Keithley s expectations, intentions, beliefs, and strategies regarding the future, including recent trends, cyclicality, and growth in the markets Keithley sells into, conditions of the electronics industry, deployment of our own sales employees throughout the world, investments to develop new products, the potential impact of adopting new accounting pronouncements, our future effective tax rate, liquidity position, ability to generate cash, expected growth, obligations under our retirement benefit plans, and the consequences of investigations and litigation related to our stock option practices.

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

These forward-looking statements involve risks and uncertainties. We may make other forward-looking statements from time to time, including in press releases and public conference calls and webcasts. All forward-looking statements made by Keithley are based on information available to us at the time the statements are made, and we assume no obligation to update any forward-looking statements. It is important to note that actual results 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 below in Item 1A Risk Factors of Part II of this Form 10-Q.

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements.

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

	June 30,		September 30,
Assets	2007	2006	2006
Current assets:			
Cash and cash equivalents	$ 14,262	$ 8,502	$ 10,501
Short-term investments	33,049	45,068	36,203
Refundable income taxes	393	132	583
Accounts receivable and other, net	19,607	21,828	26,836
Inventories:			
Raw materials	8,539	10,051	9,375
Work in process	1,184	1,766	1,208
Finished products	4,168	3,676	4,064
Total inventories	13,891	15,493	14,647
Deferred income taxes	3,920	4,199	4,206
Other current assets	1,891	1,781	1,664
Total current assets	87,013	97,003	94,640
Property, plant and equipment, at cost	51,328	50,371	49,968
Less-Accumulated depreciation	37,031	35,558	35,543
Net property, plant and equipment	14,297	14,813	14,425
Deferred income taxes	21,378	16,843	17,679
Other assets	24,057	17,190	22,148
Total assets	$ 146,745	$ 145,849	$ 148,892
Liabilities and Shareholders Equity			
Current liabilities:			
Short-term debt	$ 21	$ 1,004	$ 872
Accounts payable	7,595	8,219	8,033
Accrued payroll and related expenses	4,510	5,483	6,089
Other accrued expenses	3,780	4,350	4,870
Income taxes payable	1,729	2,171	2,733
Total current liabilities	17,635	21,227	22,597
Long-term deferred compensation	3,941	3,406	3,549
Other long-term liabilities	6,884	5,566	6,243

Shareholders equity:			
Common Shares, stated value $.0125:			
Authorized - 80,000,000; issued and outstanding - 14,518,231 at June 30, 2007, 14,380,656 at June 30, 2006 and 14,410,245 at September 30, 2006	181	179	180
Class B Common Shares, stated value $.0125:			
Authorized - 9,000,000; issued and outstanding - 2,150,502 at June 30, 2007, June 30, 2006 and September 30, 2006	27	27	27
Capital in excess of stated value	36,423	32,592	33,703
Retained earnings	87,160	86,315	88,393
Accumulated other comprehensive income	1,073	581	615
Common shares held in treasury, at cost	(6,579)	(4,044)	(6,415)
Total shareholders equity	118,285	115,650	116,503
Total liabilities and shareholders equity	$ 146,745	$ 145,849	$ 148,892

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 June 30,		For the Nine Months Ended June 30,	
	2007	2006	2007	2006
Net sales	$ 33,446	$ 38,427	$ 107,402	$ 113,896
Cost of goods sold	14,059	15,000	43,461	44,051
Gross profit	19,387	23,427	63,941	69,845
Selling, general and administrative expenses	15,288	15,848	48,255	46,557
Product development expenses	7,116	6,357	19,363	17,343
Operating (loss) income	(3,017)	1,222	(3,677)	5,945
Investment income	582	510	1,715	1,422
Interest expense	(11)	(2)	(38)	(8)
(Loss) income before income taxes	(2,446)	1,730	(2,000)	7,359
Income tax (benefit) provision	(1,987)	61	(2,543)	1,666
Net (loss) income	$ (459)	$ 1,669	$ 543	$ 5,693
Basic (loss) earnings per share	$ (0.03)	$ 0.10	$ 0.03	$ 0.35
Diluted (loss) earnings per share	$ (0.03)	$ 0.10	$ 0.03	$ 0.34
Cash dividends per Common Share	$ .0375	$ .0375	$ .1125	$ .1125
Cash dividends per Class B Common Share	$ .030	$ .030	$ .090	$ .090

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 Nine Months Ended June 30, 2007	2006
Cash flows from operating activities:		
Net income	$ 543	$ 5,693
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,137	2,882
Stock-based compensation	1,689	1,770
Deferred income taxes	(3,577)	1,278
Other items not effecting outlay of cash	542	303
Changes in working capital	3,980	(6,576)
Other operating activities	(941)	(218)
Net cash provided by operating activities	5,373	5,132
Cash flows from investing activities:		
Payments for property, plant and equipment	(3,054)	(3,943)
Purchase of short-term investments	(23,920)	(32,683)
Sale of short-term investments	27,152	28,407
Net cash generated in (used in) investing activities	178	(8,219)
Cash flows from financing activities:		
Net (payments) borrowing under short term debt agreements	(857)	990
Cash dividends	(1,776)	(1,803)
Purchase of treasury shares		(2,711)
Proceeds from stock purchase and option plans	338	284
Excess tax benefits from stock-based compensation arrangements	298	217
Net cash used in financing activities	(1,997)	(3,023)
Effect of exchange rate changes on cash	207	215
Increase (decrease) in cash and cash equivalents	3,761	(5,895)
Cash and cash equivalents at beginning of period	10,501	14,397
Cash and cash equivalents at end of period	$ 14,262	$ 8,502

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

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

A. Nature of Operations

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

B. Summary of Significant Accounting Policies

Basis of Presentation

The condensed consolidated financial statements at June 30, 2007 and 2006, and for the three month and nine month periods then ended have not been audited by an independent registered public accounting firm, but in the opinion of our management, all adjustments necessary to fairly present the consolidated balance sheets, consolidated statements of operations and 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 condensed consolidated financial statements for the three and nine month periods ended June 30, 2007 and 2006 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, 2006, which were included in the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2006 filed on December 29, 2006 (the 2006 Form 10-K). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These financial statements should be read in conjunction with the financial statements and the notes thereto included in the 2006 Form 10-K.

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

Reclassifications

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

C. Recent Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, which amends SFAS 133 Accounting for Derivative Instruments and Hedging Activities and SFAS 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS No. 155 simplifies the accounting for certain derivatives embedded in other financial instruments by allowing them to be accounted for as a whole if the holder elects to account for the whole instrument on a fair value basis. SFAS No. 155 also clarifies and amends certain other provisions of SFAS No. 133 and SFAS No. 140. SFAS No. 155 is effective for all financial instruments acquired, issued or

Table of Contents

subject to a remeasurement event occurring in fiscal years beginning after September 15, 2006. The adoption of SFAS No. 155 did not have a material impact on our consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement 109. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006, although early adoption is encouraged. The Company is currently evaluating the impact of this Interpretation on its financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact of this Statement on its financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin (SAB) No. 108 regarding the process of quantifying financial statement misstatements. SAB No. 108 states that registrants should use both a balance sheet approach and an income statement approach when quantifying and evaluating the materiality of a misstatement. The interpretations in SAB No. 108 contain guidance on correcting errors under the dual approach, and provide transition guidance for correcting errors. This interpretation does not change the requirements within SFAS No. 154, Accounting Changes and Error Corrections a replacement of APB No. 20 and FASB Statement No. 3, for the correction of an error on financial statements. SAB No. 108 is effective for annual financial statements covering the first fiscal year ending after November 15, 2006. The adoption of SAB No. 108 is not expected to have a material impact on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R). SFAS No. 158 represents the completion of the first phase in the FASB s postretirement benefits accounting project and requires an employer that is a business entity and sponsors one or more single employer benefit plans to (1) recognize the over-funded or under-funded status of the benefit plan in its statement of financial position, (2) recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs of credits that arise during the period but are not recognized as components of net periodic benefit cost, (3) measure defined benefit plan assets and obligations as of the end of the employer s fiscal year, and (4) disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation. The provisions of SFAS No. 158 are effective as of September 30, 2007, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. The impact of adopting SFAS No. 158 cannot be determined until the actuarial valuations are completed and the plan asset values are determined for the current year ending September 30, 2007. However, based upon the funded status of the Company s pension plans at September 30, 2006, the adoption of SFAS No. 158 would have reduced total stockholders equity by approximately $6,109 on a pretax basis at September 30, 2006. By the time we adopt SFAS No. 158 as of September 30, 2007, plan performance and actuarial assumptions could have a significant impact on the actual amounts recorded.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FAS 115. SFAS No. 159 allows companies to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. Unrealized gains and losses shall be reported on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 also establishes presentation and disclosure requirements. It is effective for fiscal years beginning after November 15, 2007 and will be applied prospectively. The adoption of SFAS No. 159 is not expected to have a material impact on our consolidated financial statements.

6

Table of Contents

D. Earnings Per Share

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

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2007	2006	2007	2006
Net (loss) income	$ (459)	$ 1,669	$ 543	$ 5,693
Weighted averages shares outstanding	16,252,296	16,454,185	16,204,214	16,464,532
Dilutive effect of stock awards		160,120	201,099	181,803
Assumed purchase of stock under stock purchase plan		1,662	1,153	1,859
Weighted average shares used for dilutive earnings per share	16,252,296	16,615,967	16,406,466	16,648,194
Basic earnings per share	$ (0.03)	$ 0.10	$ 0.03	$ 0.35
Diluted earnings per share	$ (0.03)	$ 0.10	$ 0.03	$ 0.34

Due to the net loss for the three months ended June 30, 2007, 196,822 shares were excluded from the dilutive calculation from stock awards and the stock purchase plan.

E. Stock-based Compensation

The Company currently has one equity-based compensation plan from which stock-based compensation awards can be granted to employees and Directors. In addition, we have two plans that were terminated or have expired, but which have options currently outstanding. The Company also has an employee stock purchase plan (ESPP) that provides employees with the opportunity to purchase Common Shares at 95 percent of the fair market value at the end of the one-year subscription period. The provisions of the ESPP are such that measurement of compensation expense is not required by SFAS No. 123R Share-Based Payments. Additionally, no shares were issued pursuant to the ESPP during the nine months of fiscal year 2007 or 2006.

Stock option activity

During the first nine months of fiscal 2007, the Company granted 106,025 non-qualified stock options with a weighted average exercise price of $13.91 to officers and other key employees. The exercise price of the options is equal to the fair market value on their respective grant date. The only options issued during fiscal 2006 were issued during the first quarter. During the first quarter of fiscal 2006, the Company granted 165,651 non-qualified stock options to officers and other key employees. The options have an exercise price equal to the $15.05 market value of the shares on the grant date. The awards granted in both periods have a term of ten years, vest fifty percent after two years, and an additional twenty five percent each after years three and four.

The fair value of the options granted during the first nine months of fiscal 2007 and 2006 was $5.41 and $5.93 per share, respectively. The fair values were determined using the Black-Scholes option-pricing model. The following assumptions were applied for options granted during these periods:

	Nine Months Fiscal 2007	Nine Months Fiscal 2006
Expected life (years)	4.75	4.5
Risk-free interest rate	4.79%	4.27%
Volatility	42%	45%
Dividend yield	1.07%	1.01%

7

Table of Contents

The risk-free interest rate and dividend yield were obtained from published sources based upon factual data. In order to determine the expected life, we considered the exercise and cancellation behavior of past grants to model expected future patterns. We also considered the life of options currently outstanding. To determine the volatility assumption, we primarily relied upon historical volatility of Keithley s stock price. Little reliance was placed on implied volatility as there is not a large enough market for exchange-traded options.

Performance award units

During the first nine months of fiscal 2007, the Company granted 142,800 performance award units to officers and other key employees with a weighted average fair market value per unit on the grant dates of $13.95. During the first nine months of fiscal year 2006, the Company granted 164,025 performance award units with a weighted average fair value of $15.05 per share. The performance award unit agreements granted during both fiscal years provide for the award of performance units with each unit representing the right to receive one of the Company s Common Shares to be issued after the applicable award period. The award period for performance award units issued in fiscal 2007 will end on September 30, 2009, while the award period for awards issued during fiscal 2006 will end on September 30, 2008. The final number of units earned pursuant to an award may range from a minimum of no units to a maximum of twice the initial award. The awards issued during fiscal year 2007 may be adjusted in 25 percent increments, while the awards issued during fiscal year 2006 may be adjusted in 50 percent increments. The number of units earned will be based on the Company s revenue growth relative to defined peer groups, and the Company s return on assets or return on invested capital during the applicable performance period as defined in the agreements. Each reporting period, the compensation cost of the performance award units is subject to adjustment based upon our estimate of the number of awards we expect will be issued upon the completion of the performance period. We are currently expensing all performance awards at target levels.

Restricted award units

During the first nine months of fiscal year 2007, the Company granted 25,050 restricted award units to key employees other than officers. The awards have a weighted average fair market value per unit of $13.61 based upon the fair value of the Company s stock on the award dates. During the first nine months of fiscal year 2006, the Company granted 16,175 restricted award units with a weighted average fair market value per unit on the grant dates of $15.05. The restricted unit award agreements provide for the award of restricted units with each unit representing one share of the Company s Common Shares. Generally, the awards vest on the fourth anniversary of the award date, subject to certain conditions specified in the agreement. The vesting date may be earlier than four years in certain cases to accommodate individuals planned retirement dates.

Directors equity plans

Non-employee Directors receive an annual Common Share grant equal to $58. The Common Shares are to be issued out of the Keithley Instruments, Inc. 2002 Stock Incentive Plan.

The Board of Directors also may issue restricted stock grants worth $75 to a new non-employee Director at the time of his or her election. These restricted stock grants vest over a 3-year period. There were no such grants issued during the first nine months of fiscal year 2007.

Compensation costs recorded

The table below summarizes stock-based compensation expense recorded under SFAS 123R for the three month and nine month periods ended June 30, 2007 and 2006.

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2007	2006	2007	2006
Cost of goods sold	$ 45	$ 29	$ 102	$ 84
Selling, general and administrative expenses	504	503	1,346	1,476
Product development expenses	99	71	241	211
Stock-based compensation included in operating expenses	648	603	1,689	1,771
Estimated tax impact of stock-based compensation	213	205	554	600

Stock-based compensation expense, net of tax	$ 435	$ 398	$ 1,135	$ 1,171

The excess tax benefits recognized during the first nine months of fiscal year 2007 and 2006 were approximately $298 and $205, respectively.

As of June 30, 2007, there was $4,058 of total pretax unrecognized compensation cost related to nonvested awards. That cost is expected to be recognized over a weighted-average period of 2.2 years.

F. Repurchase of Common Shares

On February 12, 2007, the Company announced its Board of Directors had approved an open market stock repurchase program (the 2007 Program). Under the terms of the 2007 Program, the Company may purchase up to 2,000,000 Common Shares, which represents approximately 12 percent of its total outstanding Common Shares, through February 28, 2009. The 2007 Program replaces the prior repurchase program (the 2003 Program), which expired on December 31, 2006. The purpose of the 2007 and 2003 Programs 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 purchases under these stock plans.

There were no purchases under 2007 Program during the first nine months of fiscal year 2007. At June 30, 2007, there were 405,500 Common Shares remaining in treasury at an average cost, including commissions, of $12.40 pursuant to the repurchase programs.

The following table summarizes the Company s stock repurchase activity during the first nine months of fiscal 2006:

	Three and Nine Months Ended June 30, 2006
Total number of shares purchased	215,000
Average price paid per share (including commissions)	$ 12.61
Identity of broker-dealer used to effect the purchases	National Financial Securities LLC
Number of shares purchased as part of a publicly announced repurchase program	215,000
Maximum number of shares that remain to be purchased under the program	1,785,000

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. Shares held in treasury pursuant to this plan totaled 160,568 and 140,742 at June 30, 2007 and 2006, respectively.

G. Financing Arrangements

On March 29, 2007, the Company extended the term of its credit agreement, as amended, to March 31, 2010 from March 31, 2009. The agreement is a $10,000 debt facility ($0 outstanding at June 30, 2007) 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 0.125% per annum on the total amount of the commitment. The agreement may be extended annually. Additionally, the Company has a number of other credit facilities in various currencies and for standby letters of credit aggregating $5,000 ($21 of short-term debt and $703 for standby letters of credit outstanding at June 30, 2007). At June 30, 2007, the Company had total unused lines of credit with domestic and foreign banks aggregating $14,276 of which $10,000 was long-term and $4,276 was a combination of long-term and short-term depending upon the nature of the indebtedness.

Under certain provisions of the debt agreements, the Company is required to comply with various financial ratios and covenants. The Company was in compliance with all such debt covenants as of June 30, 2007.

Table of Contents

H. Accounting for Derivatives and Hedging Activities

In accordance with the provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (as amended), all of the Company s derivative instruments are recognized on the balance sheet at their fair value. 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 hedged transactions occur.

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 as, and that is designated 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, 2007, the foreign exchange forward contracts were designated as foreign currency cash flow hedges.

At June 30, 2007, the Company had obligations under foreign exchange forward contracts to sell 2,300,000 Euros, 655,000 British pounds and 280,000,000 Yen at various dates through October 2007. In accordance with the provisions of SFAS No. 133, the derivative instruments are recorded on the Company s Consolidated Balance Sheets. The fair market value of the foreign exchange forward contracts represented an asset/(liability) to the Company of $30 and $(17), at June 30, 2007 and 2006, respectively.

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. Cash flows resulting from hedging transactions are classified in the consolidated statements of cash flows in the same category as the cash flows from the item being hedged.

I. Comprehensive Income

Comprehensive (loss) income for the three and nine month periods ended June 30, 2007 and 2006 is as follows:

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2007	2006	2007	2006
Net (loss) income	$ (459)	$ 1,669	$ 543	$ 5,693
Unrealized gains (losses) on value of derivative securities, net of tax	61	36	(25)	(29)
Net unrealized investment gains (losses), net of tax	3	(13)	51	(52)
Foreign currency translation adjustments	29	305	432	265
Comprehensive (loss) income	$ (366)	$ 1,997	$ 1,001	$ 5,877

Table of Contents

J. Geographic Segment Information

The Company reports a single Test and Measurement segment. Our net sales and long-lived assets 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 June 30,		For the Nine Months Ended June 30,	
	2007	2006	2007	2006
Net sales:				
United States	$ 9,654	$ 11,663	$ 26,972	$ 33,569
Other Americas	888	1,442	3,434	4,028
Germany	3,715	5,826	13,724	14,646
Other Europe	7,172	7,600	22,008	23,389
Japan	3,207	3,341	13,236	12,230
Other Asia	8,810	8,555	28,028	26,034
	$ 33,446	$ 38,427	$ 107,402	$ 113,896